



PRIMA INDUSTRIE

REPORT ON OPERATIONS - 2005 FINANCIAL YEAR
CONSOLIDATED FINANCIAL STATEMENTS 12/31/2005

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**STATUTORY FINANCIAL STATEMENTS 12/31/2005**

**Approved by the Board of Directors on February 27, 2006**

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

Paid-in  
Capital Stock 11,500,000 euro  
Registered in the Turin  
Companies' Register under No. 03736080015  
Turin R.E.A. No. 582421

Registered offices in Collegno (Turin)  
Via Antonelli, 32  
Web site:  
<http://www.PRIMAINDUSTRIE.com>  
e-mail: PRIMA.dg@PRIMAINDUSTRIE.com

**BOARD OF DIRECTORS <sup>(1)</sup>**

***Chairman and Chief Executive Officer***  
Gianfranco Carbonato

***Directors***

Sandro D'Isidoro  
Fabrizio Lugaresi  
Mario Mauri  
Domenico Peiretti  
Pio Pellegrini <sup>(2) (3)</sup>  
Marco Pincioli <sup>(2)</sup>

***Secretary***

Massimo Ratti

**General Manager**

Ezio Basso

**BOARD OF STATUTORY AUDITORS <sup>(4)</sup>*****Chairman***

Riccardo Formica

***Statutory Auditors***

Andrea Mosca  
Roberto Petrignani

***Alternate Auditors***

Roberto Coda  
Gianluigi Frigerio

**AUDITING COMPANY**

PricewaterhouseCoopers S.p.A.

<sup>(1)</sup> Appointed at the Stockholders' Meeting held on May 13, 2005 for the three-year period 2005-2007

<sup>(2)</sup> Independent director

<sup>(3)</sup> Appointed at the Stockholders' Meeting held on September 8 for the three-year period 2005-2007

<sup>(4)</sup> Appointed at the Stockholders' Meeting held on May 14, 2004 for the three-year period 2004-2006

**POWERS RELATING TO COMPANY APPOINTMENTS**

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

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

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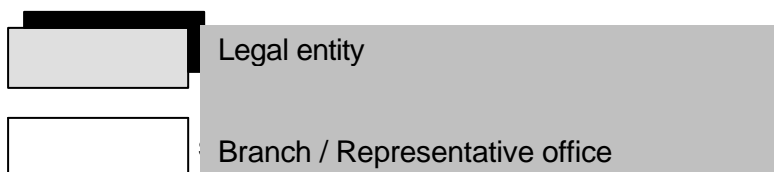
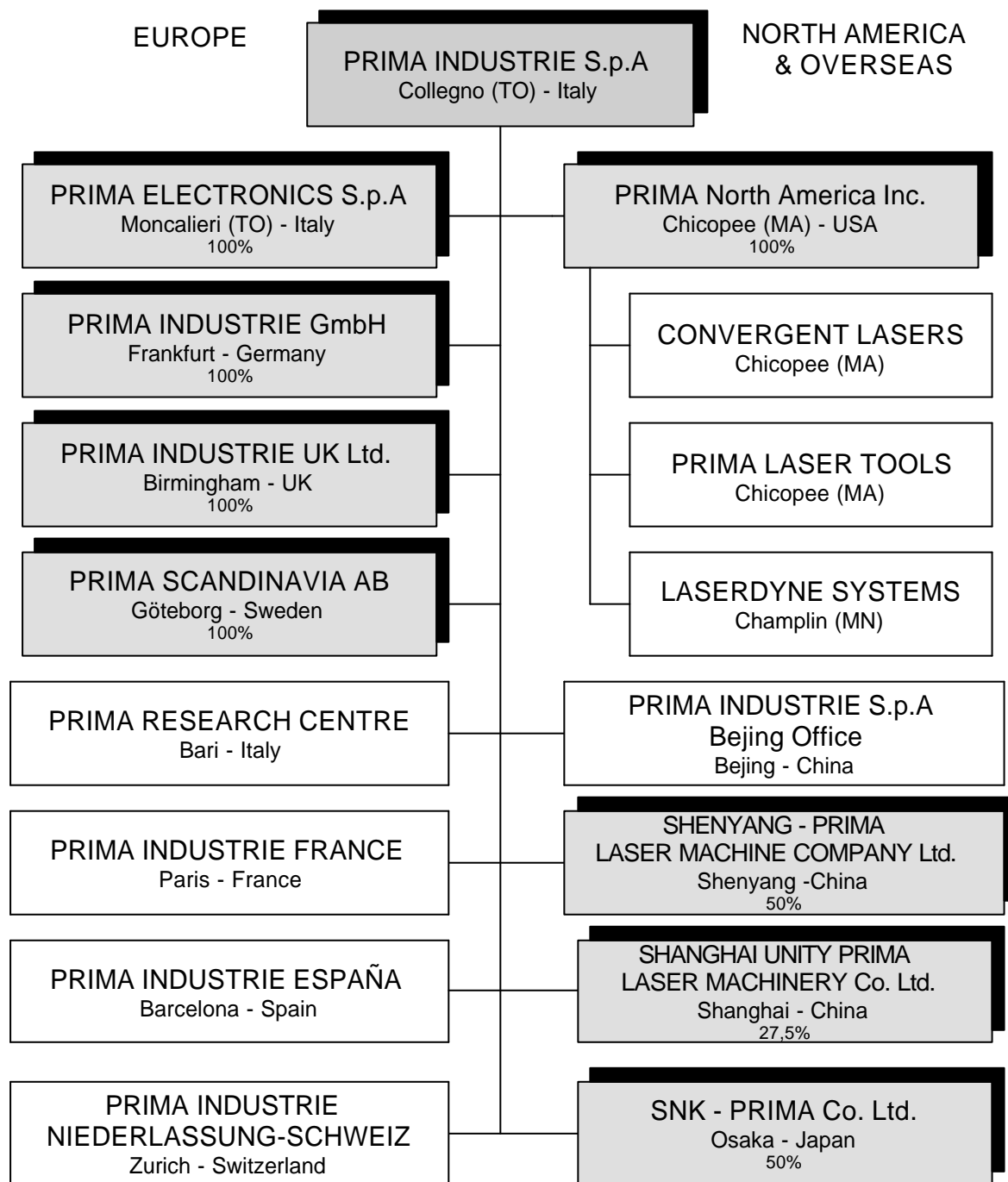


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**REPORT ON OPERATIONS  
FOR THE 2005 FINANCIAL YEAR**

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# 1. STRUCTURE OF THE PRIMA INDUSTRIE GROUP AT 12/31/2005



## 2. INTRODUCTION

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### □ NORMATIVE FRAMEWORK

In the application of European Regulation No. 1606 dated July 19, 2002, the PRIMA INDUSTRIE Group prepared the Consolidated Financial Statements at 12/31/2005, in conformity with the International Accounting Principles approved by the European Commission (hereinafter referred to individually as IAS/IFRS or together, as IFRS).

The Financial Statements at 12/31/2005 include:

- a) the Balance Sheet;
- b) the Income Statement;
- c) Statement of changes in stockholders' equity;
- d) Cash flow statement;
- e) Report on operations;
- f) Explanatory notes to the Financial Statements

The Financial Statements of the Parent Company, PRIMA INDUSTRIE S.p.A. are prepared according to Italian Accounting Standards (local GAAP). One must make reference to these standards in regard to information relating to the Parent Company.

Similarly, the information relative to the Financial Statements of the other subsidiary companies of the Group is shown using local GAAP.

The information included in the Consolidated Financial Statements at December 31, 2004 was re-determined in accordance with the IFRS that had been approved at the date of these Consolidated Financial Statements.



## □ GENERAL INFORMATION

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

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 USA. 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 US 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 aero-space and energy industries. Thanks to this acquisition, the PRIMA Group has broadened its presence in North America and in the aerospace market.

In 2002, the USA activities were combined and consolidated into a single legal entity - PRIMA North America Inc. - located at two 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 7/01/2005. 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 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 (Turin), via Antonelli 32.

The Financial Statements were approved by the Board of Directors on February 27, 2006.

### 3. BUSINESS TREND

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#### ADDRESS TO THE STOCKHOLDERS'

*Stockholders,*

*it is with great satisfaction that the Board of Directors submits the Consolidated Financial Statements of the Group at 12/31/05 for your approval.*

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

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

- 1. The Group's reference market recommenced 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 in the main Western European markets. This trend also enabled the Group to close the 2005 financial year with a significant increase in the orders backlog.*

- 2. All the main companies of the Group contributed to the growth with a significant increase in their sales, which were about 10% for the parent company, PRIMA INDUSTRIE and PRIMA ELECTRONICS, and about 20% for PRIMA North America.*

*In consolidated terms and therefore net of intercompany transaction, which in turn reflected strong growth, as a result of the increase in sales of systems equipped with internally produced laser generators and because of the more articulated Group structure in terms of Distribution companies, 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 euro.*

*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 at any rate contributed to about 10% of the consolidated net profit.*

3. *The positive contribution of all the main companies of the Group, with all profitability indicators (EBITDA, EBIT, NET PROFIT) assisted in the growth in sales. In particular the net profit has increased fivefold going from 1.1 M€ in 2004 to 5.1 M€ in 2005, also thanks to the lesser impact of taxes.*

*All the companies have also generated cash despite the increase and above the increase in revenues. As a consequence of the above the Net Financial Position reflected a further significant improvement of about 8 million euro, going from 15.4 Million as at 12/31/2004 to 7.7 Million at 12/31/2005.*

4. *The Group's product range was further strengthened with the launch of the SYNCRONO, which took place at the EMO fair, the European machine tool exhibition and the sector's main international show. The launch of the SYNCRONO, which immediately received positive reviews 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 some time been acknowledged as the market leader in the three-dimensional machines sector, to noticeably improve its presence in the large, competitive sector of two-dimensional cutting machines.*

*It is therefore not by chance that the SYNCRONO launch benefited the other product lines, given the Group's improved image on the international markets.*

*The SYNCRONO is the product of a policy of heavy investment in Research and Development (in 2005 too, the percentage of Research completely charged to the Income Statement was 7% of consolidated sales).*

5. *During the year the Group continued to invest to improve the business coverage in certain other main markets and other emerging countries. It is in this sphere that one must place the purchase by the previous distributor of the branch of the business that was dealing with sales and services in the main European market, Germany. After this purchase, formalized in May 2005, PRIMA GmbH has 12 employees - all highly qualified. The purchase will allow the Group an efficient coverage of the German market and improved competitiveness thanks to the shortening of the distribution chain.*

*In the light of what has been set out above we feel that we must thank all the employees of the Group (about 500 throughout the world - without taking into account the approximate 150 people of the 2 Chinese Joint Ventures, which were not consolidated), for their dedication and the positive results achieved.*

*It is thus as a result of what has been set out above that the Stock Market, (where the Company has been listed since September last year in the STAR section of the Italian Stock Exchange), has recorded a net increase of PRIMA INDUSTRIE's capitalization (about 90%). This occurred in the absence of extraordinary events, insofar as the entire growth took place internally.*

*It is well known that external growth was 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 that of the Net Financial Position) will allow it in the future to pursue external growth opportunities, which will be focused above all in the current sectors of activity.*

*The positive considerations on the group's future are confirmed by the growth in the orders backlog, both in the increase in orders acquisition as well as in the impact of the new IAS/IFRS accounting principles, that generally recognise revenues only on the end-customer's acceptance.*

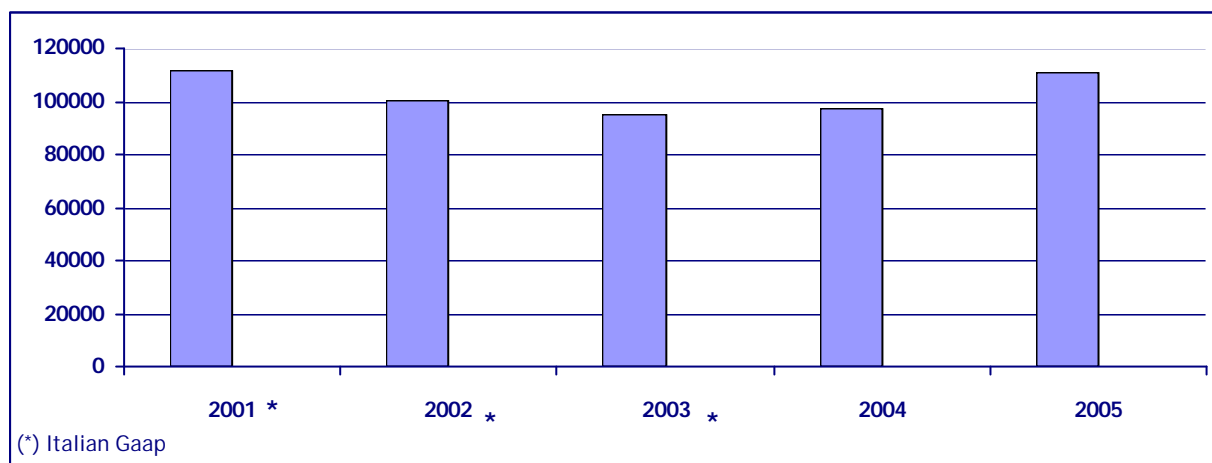
*In the light of an improved view of the future, the Board of Directors has decided to propose to the Shareholders' Meeting a substantial increase in the dividend from the 0.14 € /share of the previous year to 0.28/share.*

*The Board is confident that this decision will be positively received by the Shareholders.*

*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 profit, in accordance with the present global economic trend.*

## □ SALES AND PROFITABILITY

### Consolidated Sales (Thousands of euro)



The consolidated revenues for 2005, valued in compliance with IAS 18 (which directive provides for the recognition of revenue generally at the time of the end-customer's acceptance) amount to 110,885 thousand euro.

This amount, which was significantly up (+14,2%) compared to the 97,106 thousand euro at 12/31/04 was earned as follows: 27.1% in Italy (27.1% at 12/31/04); 41.1% in Europe (36.0% at 12/31/04); 19.1% in North America (20.5% at 12/31/04) and 12.7% in Asia and the rest of the world (16.4% at 12/31/04). As usual these revenues do not consolidate the turnover of the Japanese and Chinese Joint Ventures, where the Group does not hold a controlling interest.

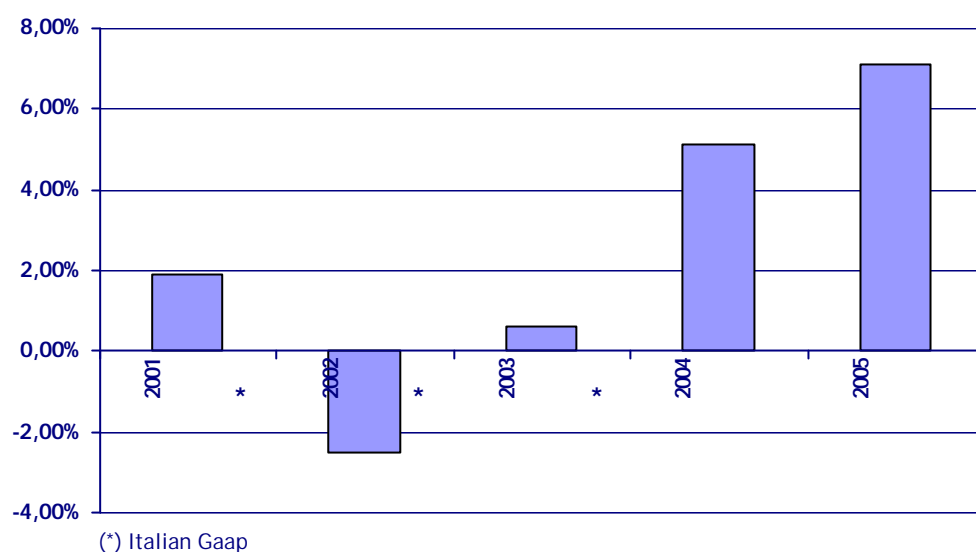
The geographical distribution of the revenues highlights the recovery underway in the Italian and European markets, whereas the limited reduction in absolute terms of the revenues coming from Asia and the rest of the world is entirely attributable to the different way of recognizing the revenues relative to some LASERDYNE systems

Consequently, even the value of production at 12/31/05, equal to 115,851 thousand euro, is significantly up (+12.7%) when compared to the value of the previous year (it was in fact 102,772 thousand euro at 12/31/04).

The year-end data confirm the trend of growth in profitability already highlighted in the interim financial statements. The Group's EBITDA, equal to 9,125 thousand euro, grew by 47% compared to the 6,204 thousand euro at 12/31/04, whereas the consolidated EBIT (7,917 thousand euro - equal to about 7.1% of the sales) improved by 58.6% compared to the previous year (4,991 thousand euro at 12/31/04 equal to 5.1% of sales).

The profit before tax for the period is 7,113 thousand euro, more than double (+107,3%) the 3,431 thousand euro at 12/31/2004.

## Operating profit (EBIT)/Sales

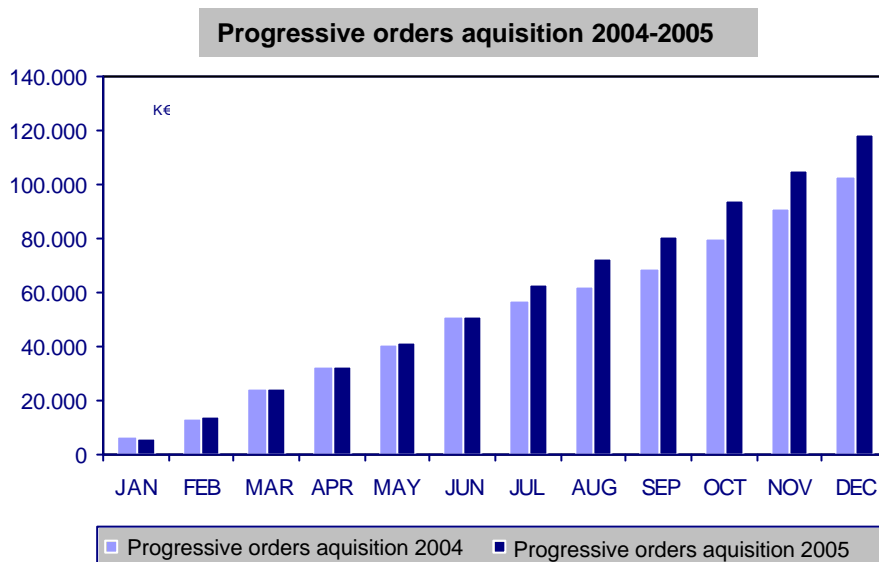


The increase in the net profit, fixed at 5,108 thousand euro (up 389.7%) was particularly significant, compared to the 1,043 thousand euro of the previous financial year. The reduction of the consolidated tax rate depends both on PRIMA North America's growing positive contribution to the consolidated result, which benefits from prior tax losses, as well as on the lesser percentage incidence of IRAP in the face of the Italian companies' higher operating results.

It follows that 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 euro per share (compared to 0.23 euro per share at 12/31/04).

## ORDER ACQUISITION AND THE ORDERS BACKLOG

As at 12/31/05 the consolidated orders acquisition amounted to 118,821 thousand euro, an increase of 17.3% compared to the 101,297 thousand euro of 2004. This increase was achieved in the second half of the year, as fresh evidence of the strengthness of the destination markets



In particular the orders acquisition of the Laser systems and sources sector totalled 105,513 thousand euro (89,513 thousand euro in 2004), whereas those of the Electronic equipment sector, relative to third party customers, amounted to 13,308 thousand euro in 2005.

In addition to the more favourable economic climate, the growth in orders acquisition benefited from the energetic marketing activities, that were translated into the return, after 10 years, of a direct presence on the German market (through the acquisition by PRIMA GmbH of Matra branch, which was involved in the sales and assistance of PRIMA systems in Germany). The marketing activities were also directed at taking part in many fairs. By way of example only, one may refer to the EMO Fair and Schweissen und Schneiden (Germany), Fabtech in Chicago, MAQUITEC (Spain), TOL-EXPO (France) and CIMT (Beijing).

As a consequence the orders backlog at 12/31/2005 totalled 40,742 thousand euro increasing by 13.9% compared to the 35,766 thousand euro at 12/31/04.

□ NET FINANCIAL POSITION

|                                                              | 12/31/05 | 06/30/05 | 12/31/04 |
|--------------------------------------------------------------|----------|----------|----------|
| CASH AND CASH EQUIVALENTS                                    | 11,495   | 10,337   | 6,448    |
| SHORT-TERM BORROWINGS FROM BANKS AND OTHER LENDERS (*)       | (13,913) | (9,185)  | (9,711)  |
| MEDIUM/LONG-TERM BORROWINGS FROM BANKS AND OTHER LENDERS (*) | (5,315)  | (15,779) | (12,156) |
| TOTAL NET EXPOSURE TO THE CREDIT SYSTEM                      | (7,733)  | (14,627) | (15,419) |

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

The net financial position highlights the overall exposure to credit institutions and other lenders (including the Ministry of Productive Activities, Simest S.p.A. and leasing companies).

During 2005 the improvement in the Net Financial Position continued, thanks to the cash flow generated and the careful attention given to working capital management.

In particular compared to 06/30/05 an improvement of 6,894 thousand euro was recorded, thanks to the containment of working capital, the receipt of certain research grants, also relative to activities carried out in prior financial years, and to the cash flow generated by management. It is to be noted that the substantial liquidity at December 31, 2005 can be attributed to a series of receipts during December 2005. The increase in the short-term borrowings from banks is exclusively due to the medium-term loan instalments falling due in 2006. In particular it is to be noted that the Bank overdrafts at December 31, 2005 amount to 1,036 thousand euro as against the 3,967 thousand euro at December 31, 2004.

During the financial year new medium/long-term loans were obtained for 7,842 thousand euro, whereas loan instalments totalling 6,794 thousand euro were repaid.



The net debt includes:

- 896 thousand euro (against 1,673 thousand euro at 12/31/2004) for Sabatini pro solvendo transactions. It should be emphasized that the Group will be called upon to honour these credit instruments only in the event of default on the part of the customers involved;
- 931 thousand euro in lease instalments to be paid, most of which are due in connection with the financial lease in respect of PRIMA INDUSTRIE - Factory 2 in Collegno, (Turin);
- 1,761 thousand euro in subsidized Research loans and loans to be used for trading penetration, received from government agencies;
- a net balance of 11 thousand euro in respect of derivatives on interest and exchange rates;
- 272 thousand euro of other financial assets made up almost entirely of a capitalization policy.

Net amounts due to banks thus totalled 4,405 thousand euro, a reduction of more than 59.5% on the previous year (10,881 thousand euro).

The Net Financial Position /equity ratio (both were calculated on the basis of IAS-IFRS standards) thus stood at 0.25 (it was 0.60 at the end of 2004). As regards bank borrowing, the Group's Bank debt /equity ratio was 0.14 at 12/31/2005, as against 0.42 at 12/31/04.

### The Financial Position of the Group

| <i>Amounts in thousands of euro</i>     | <b>12/31/05</b> | <b>12/31/04</b> |
|-----------------------------------------|-----------------|-----------------|
| NET LONG-TERM INVESTMENTS               | 10,431          | 9,523           |
| NET WORKING CAPITAL                     | 33,078          | 36,076          |
| <b>TOTAL ASSETS</b>                     | <b>43,509</b>   | <b>45,599</b>   |
| TOTAL CONSOLIDATED SHAREHOLDERS' EQUITY | 30,839          | 25,682          |
| EMPLOYEE BENEFITS                       | 4,937           | 4,498           |
| NET FINANCIAL POSITION                  | 7,733           | 15,419          |
| MEDIUM-TERM LIABILITIES                 | 5,315           | 12,156          |
| SHORT-TERM LIABILITIES                  | 2,418           | 3,263           |
| <b>TOTAL LIABILITIES</b>                | <b>43,509</b>   | <b>45,599</b>   |

The Net Working Capital shows a decrease compared to December 31, 2004 equal to 2,998 thousand euro, to which there is a corresponding reduction in percentage terms on sales from 37.1% at December 31, 2004 to 29.8% at December 31, 2005.

The Operating Working Capital at December 31, 2005 amounts to 34,729 and is slightly up compared to December 31, 2004 (34,094 thousand euro) with a reduction in the turnover days on sales from 128 days at December 31, 2004 to 114 days at December 31, 2005. In the face of the increased Group turnover, the steadiness of the working capital can be attributed to the strong reduction in the average number of collection days from 149 days at December 31, 2004 to 131 days at December 31, 2005 (from 81 days in 2004 to 71 days in 2005 taking into account the trade receivables net of advances from customers) and to the increase in the average number of payment days from 96 in 2004 to 101 in 2005.

The decrease in the Net Working Capital is therefore tied to the change in the other non operating assets and liabilities. The most important changes include the increase in the provision for product warranties - 1,409 thousand euro, which can be traced back to the sales increase for the 2005 financial year, the increase in the other provisions due to the acquisition of the Matra branch - 398 thousand euro, the reduction of tax assets - 687 thousand euro, mainly due to the set off of tax receivables with the Parent Company's income tax, and the increase in the other liabilities relating to human resources - 786 thousand euro due to the increase in the number of employees and relative to the wage dynamics.

## □ RESEARCH

As usual, the research carried out during the year, totalling 7,723 thousand euro (6,926 thousand euro at 12/31/04) was charged to the Income Statement. In the face of these costs, grants in an amount of 1,767 thousand euro (they were 1,486 thousand euro at 12/31/2004) were estimated. This sizable investment, which corresponds to 6.97% of turnover, will enable the Group to maintain – and, we hope, sharpen – its competitive edge in the fast-paced world of laser technology, by enhancing and broadening the spectrum of our product lines.

Research was carried out in all the Group's production 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 certain synergies with Sintesi S.r.l., a consortium that has CNR as its major shareholder, in which PRIMA INDUSTRIE S.p.A. acquired a 10% stake during January 2005.

During 2005, the Parent Company's research activities related in particular to the following:

- the completion of the SYNCRONO 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 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 Hanover in September 2005.
- The development of automation systems for 2D COMPACT SERVER machines managed by PRIMA ELECTRONICS components, which was presented to the market at the Maquitech Fair in Barcelona in October 2005.
- The PLATINO was upgraded with important technological developments like the new 10" focal head and the new technological tables on board CNC, developed in collaboration with PRIMA ELECTRONICS.
- The development of the new version of the 3D RAPIDO machine with a Z stroke that has been lengthened to 765 mm as well as new intake and support tables for pieces, which can be fitted with new rotating tables for fast loading and unloading as well as the new wire welder.
- In collaboration with PRIMA ELECTRONICS, the following were introduced: the new CNC on CPCI bus, the field buses: Profibus, Interbus and DeviceNet.
- In addition the development of the new laser generators was proceeded with. These lasers have a higher performance level and more power compared to those currently produced by the Group.

As far as PRIMA ELECTRONICS is concerned, the most significant projects included:

- The development of an inverter for asynchronous tri-phase motors with high performance levels and compact dimensions, destined for a company that produces engines, with whom the company has signed a long-term industrial collaboration agreement. During 2006, after a period of engineering and development of new performances, marketing will commence.
- The design of a programming terminal using wireless technology, in collaboration with an important industrial partner. The design will be used for the programming of articulated robots and three-dimensional machines for laser cutting and welding.
- The completion of the hardware and software design on P20L numeric control with regard to the SYNCRONO laser cutter, produced by the controlling company PRIMA INDUSTRIE.
- The design of the algorithms and the related software implementation for power control of the laser generators produced by PRIMA North America.
- The design and construction of the electronic power and control for a fuel cell electrical generator, with hydrogen feeding for stable applications.

Insofar as PRIMA North America's activities are concerned the following developments are worth mentioning:

- insofar as the CO<sub>2</sub> laser sources of the Convergent Division are concerned (who equip the systems constructed by PRIMA INDUSTRIE) the development of products with greater power than the current 4 Kw continue. These should become available in series from 2006.
- in the Nd:YAG impulsed laser sector used in the drilling applications, activities were carried out to improve the P50 laser, that concerned various components of the system.
- as far as the Laserdyne Division is concerned the new S94P control was introduced on the 790, 450 and 430 systems
- in addition the new AT Focus Drilling™ was developed, which significantly improves the laser performance in terms of the focusing of the energy band
- for the applications destined mainly for the aerospace market, and again in 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. The prototype of the new machine was finished at the end of 2005 and is currently undergoing performance tests and certification.

## □ PERSONNEL AND ORGANISATION

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 223 thousand euro at 12/31/2005, increased by about 6.7% compared to the 209 thousand euro at 12/31/2004.

The breakdown by Group company is shown below:

|                                            | 12/31/05   | 12/31/04   |
|--------------------------------------------|------------|------------|
| ➤ PRIMA INDUSTRIE S.p.A. – ITALY           | 251        | 234        |
| ➤ PRIMA INDUSTRIE European branch offices  | 25         | 27         |
| ➤ PRIMA INDUSTRIE UK Ltd. – United Kingdom | 11         | 10         |
| ➤ PRIMA INDUSTRIE GmbH - Germany           | 12         | 0          |
| ➤ PRIMA SCANDINAVIA AB – Sweden            | 4          | 3          |
| ➤ PRIMA INDUSTRIE branch office China      | 1          | 2          |
| ➤ PRIMA ELECTRONICS S.p.A. – Italy         | 88         | 84         |
| ➤ PRIMA North America, Inc. – USA          | 106        | 105        |
| <b>Total</b>                               | <b>498</b> | <b>465</b> |

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

| Function                          | 2005       | 2004       |
|-----------------------------------|------------|------------|
| Production                        | 208        | 205        |
| Quality                           | 6          | 7          |
| Research and development          | 76         | 80         |
| Marketing and sales               | 44         | 38         |
| After sales service               | 101        | 86         |
| Management/Administration         | 56         | 48         |
| Employees on 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 as far as in the Italian Companies at December 31, 2005 is set out below:

|                                    | 12/31/05   | % of the total |
|------------------------------------|------------|----------------|
| University graduates               | 72         | 21,2%          |
| Secondary School                   | 181        | 53,4%          |
| Primary School, Junior High School | 81         | 25,4%          |
|                                    | <b>334</b> | <b>100 %</b>   |

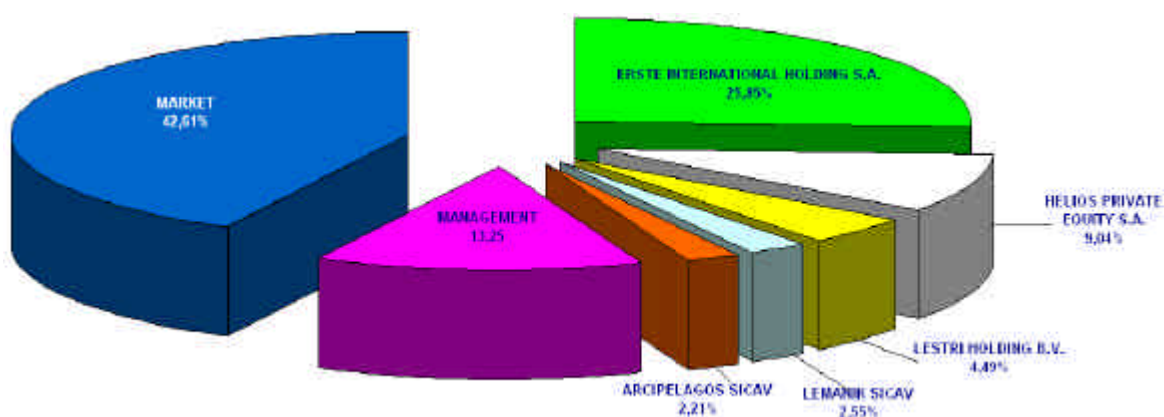
## ❑ OWNERSHIP STRUCTURE

PRIMA INDUSTRIE's capital stock at 12/31/05 consists of 4,600,000 ordinary shares with a par value of 2.5 euro.

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:

### Stockholders' structure



## THE STOCK TREND AND TREASURY STOCK

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.

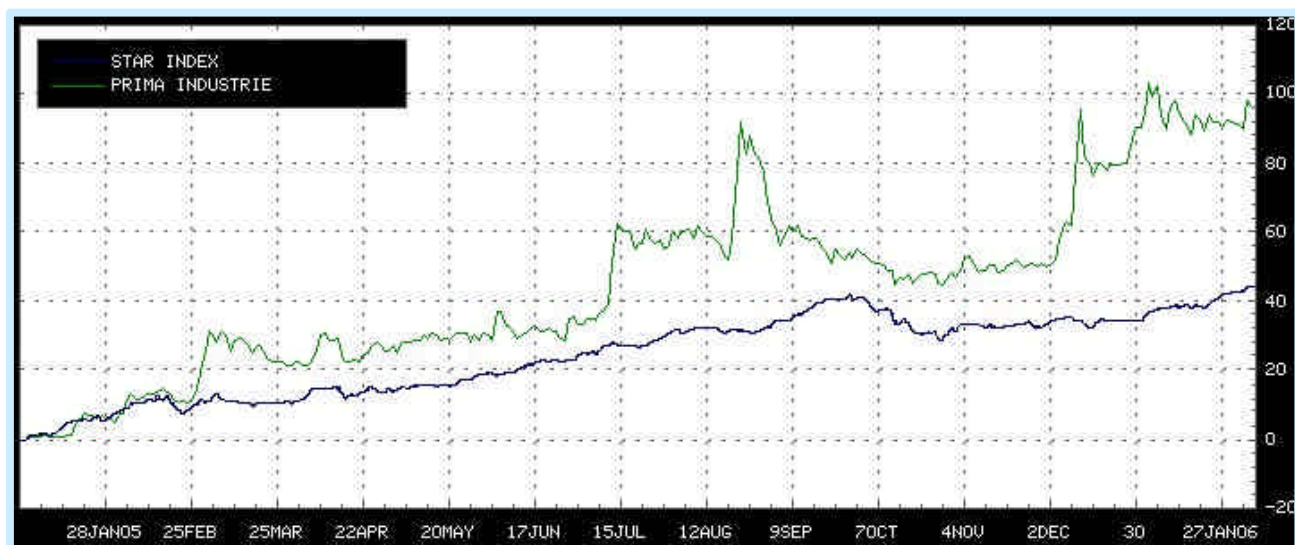
This placement, in addition to being more consistent with the type of activity carried out by PRIMA INDUSTRIE, should contribute to the company become more visible to institutional investors.

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 euro per share as against a maximum of 13.49 euro, with an arithmetic average of 9.40 (against an arithmetic mean of 6.46 in 2004). At 12/30/05 the value was 12.799 euro 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 euro, compared to 1,728,493 shares and 11.3 million euro in 2004.

The graph below highlights this trend.



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 11,609 euro 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 euro per share (equal to the par value) and a maximum buying and selling price equal to 17.533 euro (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 13.0284 euro per share.

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

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

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

During 2005, the stock in circulation amounted to 4,600,000 shares, whereas the average treasury stock held in the period was 11,447; thus the earnings per share for the 2005 financial year amount to 1.11 euro per share (compared to 0.23 euro per share in 2004).

| <b><i>EARNINGS PER SHARE</i></b>      |     |    |              | <b><i>DECEMBER 31, 2005</i></b> | <b><i>DECEMBER 31, 2004</i></b> |
|---------------------------------------|-----|----|--------------|---------------------------------|---------------------------------|
| EARNINGS                              | DUE | TO | STOCKHOLDERS | 5,108                           | 1,044                           |
| (EURO/1,000)                          |     |    |              |                                 |                                 |
| WEIGHTED AVERAGE - NUMBER OF ORDINARY |     |    |              | 4,588,553                       | 4,559,015                       |
| SHARES                                |     |    |              |                                 |                                 |
| BASIC EARNINGS PER SHARE (EURO)       |     |    |              | 1.11                            | 0.23                            |

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

The diluted earnings per share is determined by dividing the profit due to the stockholders of the Parent Company, by the average number of shares in circulation during the period, corrected by the potential number of shares, represented by the subscription rights. The estimate of the potential number of shares is determined as a probable estimate of the number of shares that can be subscribed for, at the exercise price, given the value of the option.

Because at 12/31/05 no subscription rights on PRIMA INDUSTRIE's shares were in circulation, the calculation of diluted profit per share was not applicable.

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

On 05/13/05 the Stockholders' Meeting resolved to pay a dividend per share on the 2004 profit of 0.14 euro, to be paid to all the shares in circulation, excluding treasury stock held in portfolio as at the cut-off date for the said dividend. At 05/13/05 the treasury stock held amounted to 7,500 shares and thus the amount of the dividend to be paid totalled 642,950 euro.

Insofar as 9,000 treasury stocks were held by the company at the cut-off date (05/23/05) the dividend payment which took place on 05/26/05 actually amounted to €642,740.

□ STOCK OPTION PLAN

(as per CONSOB recommendation, protocol no. 11508 dated 02/15/2000)

At the moment, there are no stock option plans for Group company employees and the plan set up on May 14, 1999 (and later modified on May 11, 2001) has expired.

□ FULFILMENT OF DATA PROTECTION OBLIGATIONS IN COMPLIANCE WITH ANNEX B OF LEGISLATIVE DECREE No. 196 OF 30/06/2003

We advise that, in terms of point 19 of the Technical regulations on the minimum security measures - Annex B to Legislative Decree no. 196/2003 "The Personal Data Protection Code", on March 30, 2005 the Programmed Document on Data Security (DPS) was drawn up and for 2006 the analysis stage is already underway. As a result the update of the document will be in place by March 31, 2006

□ SUBSEQUENT EVENTS

On January 12, 2006 PRIMA INDUSTRIE, through its subsidiary company PRIMA ELECTRONICS S.p.A increased its stake in M.L.T.A. S.r.l., a company with registered offices in Nichelino (Turin). The company is very competent in the sector dealing with the electronics of power and is already the supplier of sophisticated components for laser products of the subsidiary PRIMA North America, Inc.'s CONVERGENT LASERS DIVISION.

The increase in the stake from 41.63% to 57.84% took place by capital increase reserved to PRIMA ELECTRONICS and on the basis of valuation parameters that had already been used at the time of the increase in the stake in 2004. The total subscriber's disbursement amounted to 65,000 euro, fully paid in at the extraordinary stockholders' meeting held on that date.

M.L.T.A., a company founded in 1982, operates in the power electronics sector and boasts leading customers in the railway and motor sectors. The most recent Financial Statements, approved on 12/31/2005 reflect sales of 1,793 thousand euro with EBITDA and EBIT respectively totalling 95 and 42 thousand euro.



#### 4. PERFORMANCE OF GROUP COMPANIES

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

□ PRIMA INDUSTRIE S.p.A.

The sales of the Parent Company in the 2005 financial year amounted to 72,716 thousand euro and grew by 10.3% compared to the 65,913 thousand euro 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 SYNCRONO presentation that took place in autumn.

Highlights of the PRIMA INDUSTRIE S.p.A. 2005 Income Statement are shown below. All amounts are expressed in thousands of euro and are shown together with the corresponding figures for the previous year to permit comparison:

|                                              | 12/31/05      | 31/12/04      |
|----------------------------------------------|---------------|---------------|
| <b>SALES AND SERVICE REVENUES</b>            | <b>72,716</b> | <b>65,913</b> |
| CHANGE IN INVENTORY AND OTHER REVENUES       | 4,137         | 2,611         |
| TOTAL VALUE OF PRODUCTION                    | 76,853        | 68,524        |
| TOTAL COST OF PRODUCTION                     | (58,911)      | (52,941)      |
| ADDED VALUE                                  | 17,942        | 16,483        |
| PERSONNEL EXPENSES                           | (14,249)      | (12,847)      |
| <b>GROSS OPERATING MARGIN – EBITDA</b>       | <b>3,693</b>  | <b>3,636</b>  |
| AMORTIZATION, DEPRECIATION AND WRITEDOWNS    | (611)         | (613)         |
| <b>OPERATING INCOME (EBIT)</b>               | <b>3,082</b>  | <b>3,023</b>  |
| NET FINANCIAL INCOME (EXPENSE)               | 88            | (25)          |
| VALUE ADJUSTMENTS AND EXTRAORDINARY EXPENSES | 2,135         | (508)         |
| <b>INCOME (LOSS) BEFORE TAXES</b>            | <b>5,305</b>  | <b>2,490</b>  |
| CURRENT TAXES                                | (1,523)       | (1,318)       |
| DEFERRED TAXES                               | (680)         | (553)         |
| PREPAID TAXES                                | 678           | 208           |
| <b>NET PROFIT/LOSS</b>                       | <b>3,780</b>  | <b>827</b>    |

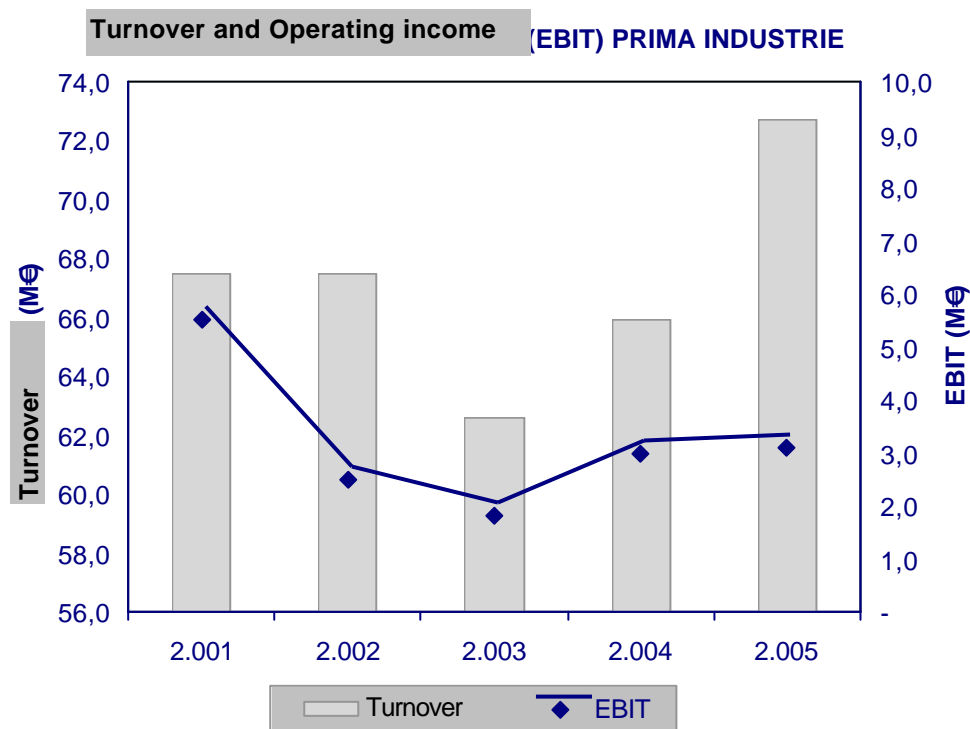
The Company's Gross Operating Margin (EBITDA) amounted to 3,693 thousand euro or 5.1 per cent of sales, against 3,636 thousand euro or 5.5 per cent of sales in the previous year. In the face of a slight increase in absolute terms, there was a slight percentage decrease due to a significant increase in the provision for doubtful debts, which went from 100 thousand euro in 2004 to 750 thousand euro in 2005, due to a provision relative to a dealer who is facing a difficult period in fulfilling his financial obligations.

in addition to the aforesaid provision the EBITDA, takes into account:

- ❑ a balance of provisions raised/utilizations of provisions for sundry risks amounting to 842 thousand euro; in particular, 2,695 thousand euro was raised to the provisions for contract-related risks and charges, set aside to cover installation and warranty costs for machines and systems installed and invoiced in 2005 (utilization of these provisions amounted to 1,861 thousand euro during the year); other minor additions to provisions included the 8 thousand euro set aside during the year for customer claims advanced against the company's agents
- ❑ 375 thousand euro for inventory obsolescence
- ❑ research costs totalling 4,267 thousand euro (against 4,089 thousand euro in 2004), all charged directly against income
- ❑ additional provisions of 609 thousand euro to cover staff severance pay (TFR) matured at the year-end.

The Company's operating result (EBIT) amounted to 3,082 thousand euro or 4.2 per cent of sales, against 3,023 thousand euro or 4.6 per cent of sales in the previous year and takes into account depreciation of 611 thousand euro.

The Company reflected a pre-tax profit of 5,305 thousand euro, which is more than double (+113%) the 2,490 thousand euro in 2004.



The following factors contributed:

- ❑ Net financial expenses and bank fees of 501 thousand euro (as against the 599 thousand euro of 2004). This reduction was chiefly due to lower net borrowings.
- ❑ Dividends from equity investments of 600 thousand euro (figure unchanged compared to 12/31/2004).
- ❑ Net exchange losses of 11 thousand euro. The fact that these losses are relatively small despite the euro's sharp rise against a number of currencies, and against the US dollar in particular, was due to careful management of the Company's total exchange rate exposure, which ensured that dollar-denominated payables and receivables were evenly matched while hedging all risks arising from collections and payments effected in US dollars by currency forward transactions.
- ❑ a partial reinstatement of the writedown of the investment in PRIMA North America, of 2,208 thousand euro, made possible by the company's positive result for the financial year.
- ❑ Writedowns on equity investments totalling 295 thousand euro, largely in connection with the losses incurred by PRIMA SCANDINAVIA (162 thousand euro), PRIMA Shenyang Laser Machine Co. (75 thousand euro) and SNK - PRIMA Co. (50 thousand euro).
- ❑ Net extraordinary income of 222 thousand euro.

The year ended with net profits of 3,780 thousand euro, after taking into account 1,523 thousand euro in current taxes, 680 thousand euro in deferred taxes and 678 for prepaid taxes, compared to the 827 thousand euro in 2004.

Key performance indicators for the year are shown below, with comparative figures as at 12/31/2004:

| <i>Amounts in thousands of euro</i>                                                    |      | <b>12/31/05</b> | <b>12/31/04</b> |
|----------------------------------------------------------------------------------------|------|-----------------|-----------------|
| NUMBER OF ORDINARY SHARES - WEIGHTED AVERAGE<br>IN THE FINANCIAL YEAR OF REFERENCE (*) |      | 4,600,000       | 4,600,000       |
| BOOK VALUE PER SHARE                                                                   | EURO | 2.50            | 2.50            |
| NET EARNINGS PER SHARE                                                                 | EURO | 0.82            | 0.18            |
| NET ASSET VALUE PER SHARE                                                              | EURO | 6.96            | 6.28            |
| (*) Includes treasury stock                                                            |      |                 |                 |

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

| <i>Amounts in thousands of euro</i> | <b>12/31/2005</b> | <b>12/31/2004</b> |
|-------------------------------------|-------------------|-------------------|
| NET LONG-TERM INVESTMENTS           | 19,112            | 16,127            |
| NET WORKING CAPITAL                 | 22,985            | 25,172            |
| <b>TOTAL ASSETS</b>                 | <b>42,097</b>     | <b>41,299</b>     |
| STOCKHOLDERS' EQUITY                | 32,029            | 28,892            |
| EMPLOYEE BENEFITS                   | 3,370             | 2,974             |
| NET FINANCIAL POSITION              | 6,698             | 9,433             |
| MEDIUM-TERM LIABILITIES             | 2,714             | 7,103             |
| SHORT-TERM LIABILITIES              | 3,985             | 2,330             |
| <b>TOTAL LIABILITIES</b>            | <b>42,097</b>     | <b>41,299</b>     |

The most significant aspect of these results is the further improvement in the Net Financial Position, owing to increased cash-flow generated by the operating management and the management of Net Working Capital, which resulted in a decrease in same in spite of the growth in sales.

It must be emphasized that the short-term borrowings are made up exclusively of medium-term loan instalments falling due in the 2006 financial year, the Company being altogether liquid on the current bank accounts of 7,119 thousand euro at 12/31/2005 (they were 3,141 thousand euro at 12/31/2004).

The debt/equity ratio, for the third year running, went to 0.21 as against 0.33 at 12/31/2004.

## SALES

Sales for 2005 amounted to 72,716 thousand euro. Breakdown by product type and geographical area is shown in the tables below, where amounts are expressed in thousands of euro, with comparative figures being given:

### *Sales breakdown by Product type*

|                             | 12/31/2005    | %          | 12/31/04      | %          |
|-----------------------------|---------------|------------|---------------|------------|
| LASER MACHINES              | 60,790        | 84         | 53,430        | 81         |
| CUSTOMER AND OTHER SERVICES | 11,926        | 16         | 12,483        | 19         |
| <b>Total</b>                | <b>72,716</b> | <b>100</b> | <b>65,913</b> | <b>100</b> |

### *Sales breakdown by geographical area*

|               | 12/31/2005    | %          | 12/31/2004    | %          |
|---------------|---------------|------------|---------------|------------|
| ITALY         | 23,025        | 32         | 22,667        | 35         |
| EUROPE        | 31,936        | 44         | 27,136        | 41         |
| USA           | 5,091         | 7          | 4,794         | 8          |
| REST OF WORLD | 12,664        | 17         | 11,316        | 16         |
| <b>Total</b>  | <b>72,716</b> | <b>100</b> | <b>65,913</b> | <b>100</b> |

The breakdown by product shows a significant growth at a level of sales of systems and substantial stability in the assistance sector. It must also be noted that during 2004 the assistance sector took account of income from royalties on licences that did not find a counterpart in 2005.

Insofar as the breakdown of sales by geographical area is concerned, in the face of substantial stability in the Italian market, a significant growth in sales was recorded in Europe, with a continuation of the positive trend in overseas and USA sales.

## COMMERCIAL ACTIVITIES

The company booked orders totalling 74,057 thousand euro in 2005, against 66,733 thousand euro in the previous year.

As previously pointed out, the capital goods market has shown strong signs of a generalized recovery starting from the second half of the year. In consequence, the company's orders portfolio has broadened. In fact the orders portfolio relative to laser systems only at 1/1/2006 amounts to 12,819 thousand euro as against the 11,587 thousand euro at 1/1/2005.

This portfolio is calculated in accordance with Italian accounting principles that consider a system to be sold when it has been sent or delivered to the end-customer, even if it has not been installed and accepted.

Considering the IAS-IFRS standard, which consider a system to have been sold when it is installed and accepted by the end-customer, the amount of the back-log in laser systems at 1/1/2006 and at 1/1/2005 become respectively 20,709 and 21,742 thousand euro.

**EQUITY INVESTMENTS HELD DIRECTLY OR INDIRECTLY BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS IN PRIMA INDUSTRIE SPA AND ITS SUBSIDIARIES (DISCLOSURE PURSUANT TO ARTICLE 79, CONSOB REGULATION No. 11971 OF MAY 14, 1999)**

As required by Article 79 of CONSOB regulation No. 11971 approved on 05/14/99 a summary of the stock held by the Directors, Statutory Auditors and general directors is set out herein below.

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

| <b>SURNAME Name</b>   | <b>Held at December '04</b> | <b>Purchased in 2005</b> | <b>Sold in 2005</b> | <b>Held at December '05</b> |
|-----------------------|-----------------------------|--------------------------|---------------------|-----------------------------|
| BASSO Ezio            | 11,974                      | 100                      | 4,000               | 8,074                       |
| CARBONATO Gianfranco  | 174,500                     | 0                        | 0                   | 174,500                     |
| Gagliardi Franca (i)  | 6,730                       | 38,000                   | 3,230               | 41,500                      |
| Della Rosa Giulia     | 0                           | 0                        | 0                   | 0 (at 13/05/05)             |
| DELLE PIANE Alberto   | 20,800                      | 7,500                    | 3,000               | 25,300                      |
| D'ISIDORO Sandro      | 1,000                       | 2,000                    | 0                   | 3,000                       |
| FORMICA Riccardo      | 0                           | 5,000                    | 0                   | 5,000                       |
| LUGARESI Fabrizio     | 38,000 (at 13/5/05)         | 19,846                   | 51,846              | 6,000                       |
| MANSOUR Rafic         | 838,794                     | 63,540                   | 0                   | 902,334 (at 13/05/05)       |
| MAURI Mario           | 0 (at 13/05/05)             | 0                        | 0                   | 0                           |
| MORFINO Giuseppe      | 0                           | 0                        | 0                   | 0 (at 7/06/05)              |
| MOSCA Andrea          | 0                           | 0                        | 0                   | 0                           |
| PALMERI Aldo          | 2,500                       | 0                        | 0                   | 2,500 (at 13/05/05)         |
| PEIRETTI Domenico     | 96,000                      | 44,000                   | 10,000              | 130,000                     |
| Monticone Emilia (ii) | 75,160                      | 5,340                    | 2,500               | 78,000                      |
| PELLEGRINI Pio        | 0                           | 0                        | 0                   | 0                           |
| PETRIGNANI Roberto    | 0                           | 0                        | 0                   | 0                           |
| PINCIROLI Marco       | 0                           | 0                        | 0                   | 0                           |
| SCARPARI Francesco    | 0                           | 0                        | 0                   | 0 (at 31/03/05)             |

*(i)MR CARBONATO'S SPOUSE - (ii) MR PEIRETTI'S SPOUSE*

*None of the persons indicated above directly or indirectly hold shares or stakes in the subsidiary companies PRIMA ELECTRONICS S.p.A., PRIMA INDUSTRIE GmbH, PRIMA INDUSTRIE UK Ltd, PRIMA SCANDINAVIA AB, PRIMA North America, Inc.*

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**TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATED COMPANIES**

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PRIMA ELECTRONICS S.p.A.

Sales made by PRIMA ELECTRONICS to PRIMA INDUSTRIE amounted to 3,142 thousand euro, up 10.98% from 2,831 thousand euro in the previous year.

All sales were arm's length transactions at current market prices, and involved:

|                                                                                 | <b>2005</b>  | <b>2004</b>  |
|---------------------------------------------------------------------------------|--------------|--------------|
| SUPPLIES OF NUMERICAL CONTROL UNITS;<br>ACCESSORIES, SERVICES AND MISCELLANEOUS | 2,683        | 2,460        |
| DESIGN ACTIVITIES                                                               | 459          | 371          |
| <b>Total</b>                                                                    | <b>3,142</b> | <b>2,831</b> |

Furthermore, PRIMA ELECTRONICS received interest of 40 thousand euro on the loan granted to the Parent Company.

During 2005, PRIMA INDUSTRIE billed a total of 202 thousand euro to PRIMA ELECTRONICS for goods, technical and administrative consulting and other services, compared to the 146 thousand euro in 2004. These billings mainly relate to services, which are centralized within the group in PRIMA INDUSTRIE and include licences, maintenance instalments and the customization expenses relating to the company's IT system, as well as the costs of a managerial and financial nature incurred by PRIMA INDUSTRIE but which benefited PRIMA ELECTRONICS.

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

|                              | <b>PRIMA INDUSTRIE RECEIVABLES</b> | <b>PRIMA INDUSTRIE PAYABLES</b> |
|------------------------------|------------------------------------|---------------------------------|
| TRADE ACCOUNTS<br>RECEIVABLE | 110                                | --                              |
| INVOICES PENDING ISSUE       | 38                                 | --                              |
| DIVIDENDS TO BE COLLECTED    | 600                                | --                              |
| CONSOLIDATED TAXATION        | 20                                 | --                              |
| TRADE ACCOUNTS PAYABLE       | --                                 | 1,077                           |
| FINANCIAL PAYABLES           | --                                 | 1,500                           |
| <b>Total</b>                 | <b>768</b>                         | <b>2,577</b>                    |

*PRIMA North America, Inc.*

In 2005, PRIMA INDUSTRIE billed PRIMA North America 3,836 thousand euro for machinery (against 4,198 thousand euro in 2004) and 515 thousand euro for accessories and spare parts (as compared with 591 thousand euro in 2004). In addition PRIMA INDUSTRIE billed 165 thousand euro in interest on intercompany loans.

In turn, in 2005 PRIMA North America billed PRIMA INDUSTRIE 6,615 thousand euro for laser sources, (2004 - 2,745 thousand euro) as well as 1,437 thousand euro for sales of systems, spare parts, commission and services carried out under contract (589 thousand euro in 2004). Intercompany payables and receivables at the year-end are shown below (in thousands of euro):

|                       |          | PRIMA INDUSTRIE RECEIVABLES | PRIMA INDUSTRIE PAYABLES |
|-----------------------|----------|-----------------------------|--------------------------|
| TRADE                 | ACCOUNTS | 969                         | --                       |
| RECEIVABLE            |          |                             |                          |
| TRADE ACCOUNTS        | PAYABLE  | --                          | 1,734                    |
| FINANCIAL RECEIVABLES |          | 2,246                       | --                       |
| <b>Total</b>          |          | <b>3,215</b>                | <b>1,734</b>             |

*PRIMA INDUSTRIE GmbH*

PRIMA INDUSTRIE GmbH, after a period of inactivity, started to operate once again with effect from 7/1/2005 with the acquisition from Matra (a company of the Linde Group) of a branch of the business for the marketing and post-sales assistance in Germany of PRIMA INDUSTRIE laser systems.

As a consequence PRIMA INDUSTRIE S.p.A billed PRIMA INDUSTRIE GmbH during the year 1,293 thousand euro for laser systems, 133 thousand euro for accessories and spare parts and 184 thousand euro for technical assistance. In the face of this PRIMA INDUSTRIE GmbH billed PRIMA INDUSTRIE S.p.A. during the course of the year, 62 thousand euro for spare parts and services

Intercompany payables and receivables at the year-end were as follows:

|                |  | PRIMA INDUSTRIE RECEIVABLES | PRIMA INDUSTRIE PAYABLES |
|----------------|--|-----------------------------|--------------------------|
| TRADE ACCOUNTS |  | 1,165                       | --                       |
| RECEIVABLE     |  |                             |                          |
| TRADE ACCOUNTS |  | --                          | 25                       |
| PAYABLE        |  |                             |                          |
| <b>Total</b>   |  | <b>1,165</b>                | <b>25</b>                |

*PRIMA INDUSTRIE UK Ltd.*

The company has been operating since 2004 and is responsible for marketing PRIMA INDUSTRIE systems and providing technical assistance in the UK region.

In 2005, PRIMA INDUSTRIE UK billed the PRIMA INDUSTRIE S.p.A. 56 thousand euro for sales of materials and services (307 thousand euro in 2004).



PRIMA INDUSTRIE S.p.A billed the English subsidiary 3,137 thousand euro relative to sales of machines (3,465 thousand euro in 2004), 31 thousand euro for rental of the premises and 23 thousand euro for interest on a loan.

Intercompany payables and receivables at the year-end were as follows:

|                           | <b>PRIMA INDUSTRIE RECEIVABLES</b> | <b>PRIMA INDUSTRIE PAYABLES</b> |
|---------------------------|------------------------------------|---------------------------------|
| TRADE ACCOUNTS RECEIVABLE | 2,367                              | --                              |
| INVOICES PENDING ISSUE    | 9                                  | --                              |
| TRADE ACCOUNTS PAYABLE    | --                                 | 31                              |
| INVOICES TO BE RECEIVED   | --                                 | 6                               |
| FINANCIAL PAYABLES        | --                                 | --                              |
| FINANCIAL RECEIVABLES     | 626                                | --                              |
| <b>Total</b>              | <b>3,002</b>                       | <b>37</b>                       |

#### *PRIMA SCANDINAVIA AB*

The company has been operating since the end of 2003, and is responsible for overseeing sales and after-sales services for PRIMA INDUSTRIE products on the Scandinavian market.

In 2005, PRIMA SCANDINAVIA billed the parent company 59 thousand euro for sales and services (56 thousand in 2004). PRIMA INDUSTRIE S.p.A. invoiced its subsidiary 639 thousand euro for the sales of machines (1,656 thousand euro in 2004) and 1 thousand euro for interest on a loan.

Intercompany payables and receivables at the year-end were as follows:

|                           | <b>PRIMA INDUSTRIE RECEIVABLES</b> | <b>PRIMA INDUSTRIE PAYABLES</b> |
|---------------------------|------------------------------------|---------------------------------|
| TRADE ACCOUNTS RECEIVABLE | 297                                | --                              |
| TRADE ACCOUNTS PAYABLE    | --                                 | 422                             |
| FINANCIAL RECEIVABLES     | 27                                 | --                              |
| <b>Total</b>              | <b>324</b>                         | <b>422</b>                      |

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

PRIMA INDUSTRIE billed the Shenyang PRIMA joint venture approximately 3,478 thousand euro for sales of 2D laser cutting machine subsystems. In 2004, sales totalled 2,079 thousand euro.

Intercompany payables and receivables at the year-end were as follows:

|                            | <b>PRIMA INDUSTRIE RECEIVABLES</b> | <b>PRIMA INDUSTRIE PAYABLES</b> |
|----------------------------|------------------------------------|---------------------------------|
| TRADE ACCOUNTS RECEIVABLE: | <b>2,043</b>                       | -                               |

*SHANGHAI UNITY PRIMA LASER MACHINERY CO. Ltd.*

No transactions took place between the company and PRIMA INDUSTRIE S.p.A during the year.

*SNK - PRIMA COMPANY Ltd.*

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

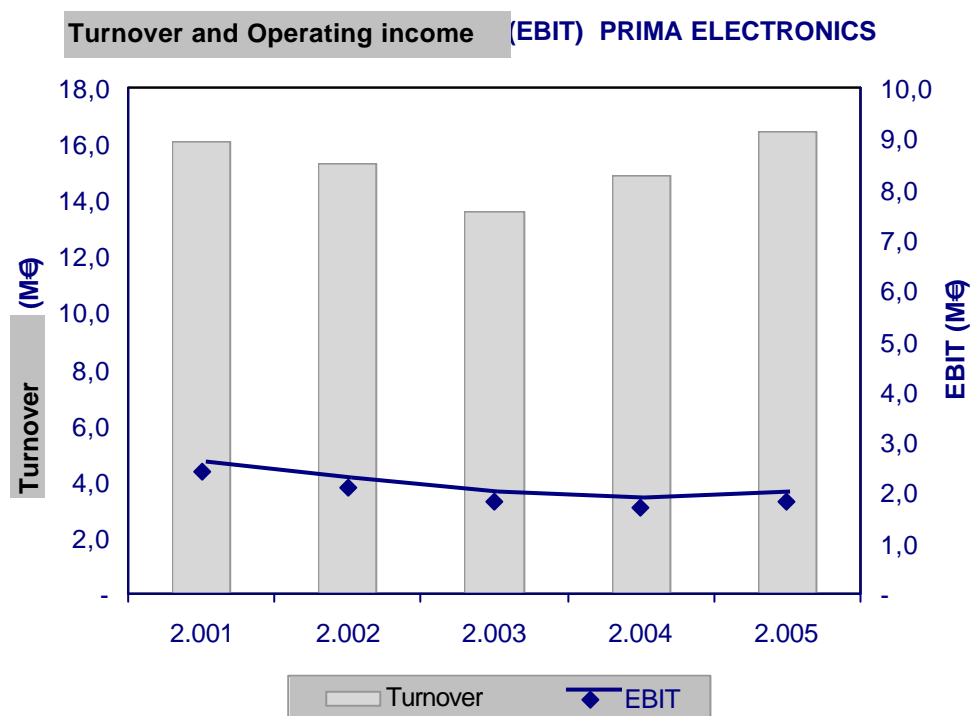
*OVL CONVERGENT LASER Ltd.*

A new joint venture with offices in Wuhan (China) is in the process of being established. No transactions took place between it and PRIMA INDUSTRIE S.p.A..

□ **SUBSIDIARY COMPANIES - PRIMA ELECTRONICS S.p.A.**

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 euro growing by 9.9% compared to the 14.9 million euro of 2004. The growth of 1.5 million euro relates to all the sectors in which the company operates but, in particular it related to the compressor regulator 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 control*” area as well as in the “other electronic products area”.

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



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

It was a reassuring year for sales due, not only to the good number of orders totalling 17,3 million euro (+ 2 million euro compared to 2004), but also because of the contacts initiated with companies operating in different sectors from that of automation. These contacts offer the potential of generating new business opportunities in the years to come.

The orders backlog at January 1, 2006 stood at 6.7 million euro, compared to 5.8 million euro at January 1, 2005.

Research costs were all charged directly against income, and totalled 1,132 thousand euro, or 6.9% of sales.

The company's net financial position improved even further, going from a positive figure of 1.8 million euro at 12/31/2004 to a value exceeding 2.1 million euro at 12/31/2005.

At 12/31/2005 the Company employed 88 people

#### □ **SUBSIDIARY COMPANIES - PRIMA North America, Inc.**

2005 benefited 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. This was particularly satisfying not only in absolute terms, but also in terms of the effect on a percentage basis compared to sales.

It must be borne in mind that commencing from 2005 the laser systems are recognized as income on installation and acceptance by the end customer. Accordingly the data for 2004 were also recalculated.

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

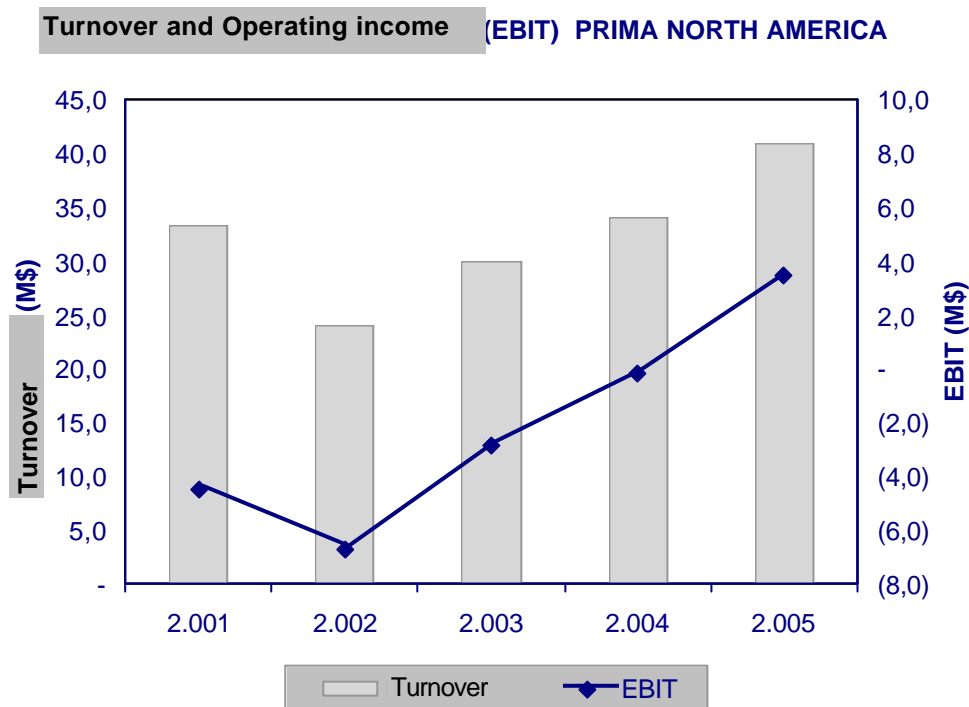
Sales of the Laserdyne Division, equal to 13.5 million dollars, is substantially in line with 2004 (13.3 million dollars); profitability also remained constant with an EBIT of 1.7 million dollars in both periods.

The CONVERGENT LASERS Division recorded revenues that grew by 35.5% going from 13.5 million dollars at 12/31/04 to 18.3 million dollars at 12/31/05. The EBIT of the Division was thus brought to 2.2 million dollars (as against 0.9 million dollars at 12/31/04) benefiting from the increased volume of sales of the CP 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 dollars in 2004 to 12,9 million dollars in 2005, with a growth of 19.4%

At an EBIT level the result is still negative - 0.5 million dollars, even though it has improved compared to 12/31/2004 (-0.9 million dollars)

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



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

Research costs, all of which were expensed during the year, totalled 2.9 million dollars against 2,2 million dollars in 2004.

The trend in the Net Financial Position is particularly satisfying, decreasing from 11.2 million dollars at 12/31/2004 to 5.4 million dollars at 12/31/2005. Net of the increase in capital of 2 million dollars effected by PRIMA INDUSTRIE in September 2005, the decrease amounted to 3.8 million dollars. At 12/31/05 the Company employed 106 people, compared to the 105 at the end of 2004.

#### □ **OTHER SUBSIDIARY COMPANIES**

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

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 3,184 thousand GBP, (as against 3,440 thousand GBP in 2004) as well as in terms of returns, with a net positive result of 151 thousand GBP (it was 113 thousand GBP in 2004).

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

### *PRIMA SCANDINAVIA AB*

PRIMA SCANDINAVIA AB's sales amounted to 950 thousand euro, (against 2,038 thousand euro in 2004) and there was a negative result of 164 thousand euro (the loss was 73 thousand euro in 2004).

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

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

### *PRIMA INDUSTRIE GmbH*

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 779 thousand euro 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.

In regard to the details of this transaction kindly refer to Chapter 7 of this Report ("Business Combination").

The information relating to sales and the results, that thus relate to a six month old business, record sales of 2,478 thousand euro with a positive result of 151 thousand euro.

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 euro, with a backlog at 01/01/2006 of 2.1 million euro.

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

## □ **UNCONSOLIDATED EQUITY INVESTMENTS**

### *SHENYANG PRIMA LASER MACHINE COMPANY LTD.*

During 2005 the joint venture in which PRIMA INDUSTRIE holds a 50% stake achieved a sales volume of 33.92 million Rmb (equal to 4,182 thousand USD) 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, if one considers the exchange effect due to the trend of the euro/Rmb, is slightly positive whereas the net result is negative in an amount of 1,536 thousand Rmb (equal to 187 thousand USD) essentially due to certain non-recurring costs.

It should be noted that 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 an amount of USD 1,000,000.

### *SNK PRIMA COMPANY LTD.*

During 2005 the company only carried out marketing activities that brought in new clients with deliveries forecasted in 2006.

### *SHANGHAI UNITY PRIMA*

During 2005, the pro forma sales (that take 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 106,957 thousand Rmb (equal to 13,012 thousand USD) compared to 55,796 thousand Rmb in 2004. The Net Financial Position at 12/31/05 was positive and amounted to 8,929 thousand Rmb.

The net result was 14,942 thousand Rmb (equal to 1,824 thousand USD) as against 3,627 thousand Rmb in 2004.

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

No commercial transactions with this company took place in 2005.  
Intercompany payables and receivables at the year-end were cleared.

PRIMA INDUSTRIE's 35% stake in the company was written off in 1999.

Though the liquidation process is not yet complete, no further expenses are expected to emerge in the future.

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

On 01/12/2006 PRIMA ELECTRONICS increased its investment in M.L.T.A. from 41.63% to 57.84%. The company will therefore be consolidated using the full consolidation method from the 2006 financial year.

On 2/14/2006 the company approved the Financial Statements at 12/31/05 that closed with sales of 1,793 thousand euro, EBITDA of 95 thousand euro and EBIT of 42 thousand euro.

*SINTESI Soc. Consortile r. l.*

During January 2005 PRIMA INDUSTRIE S.p.A. purchased a stake of 10%, for 52 thousand euro, in the company, which has CNR as its major stockholder.

The company which has offices in Modugno (BA) has as its corporate object, applied research and development in different technological fields, which include some areas that are of interest to PRIMA INDUSTRIE.

#### *OVL - CONVERGENT*

During November 2005 PRIMA North America signed a contract with Wuhan Optics Valley Laser Technology for the establishment of a Joint Venture aimed at the production and distribution of CO<sub>2</sub> lasers.

The new company which has offices in Wuhan (which has 8 million inhabitants - one of the largest Chinese cities) will be called OVL CONVERGENT LASERS Ltd. with a capital of 6.8 million USD of which 30% will be held by PRIMA North America, Inc. The Joint Venture will produce CO<sub>2</sub> laser sources developed by PRIMA North America (sources of the CP family with power of 3 to 4Kw) and Wuhan Optics Valley Laser Technology destined for the Chinese market and certain other Asian countries.

The agreement is subject to the necessary permits being obtained from the Chinese authorities, where after the company will be incorporated and registered.

#### □ *THE OUTLOOK FOR 2006*

The strong recovery of the reference market and the improved competitiveness of the product range and of the direct distribution network have allowed the confirmation of significant growth of the orders acquisition, even in January (from about 6 million euro in January 2005 to over 10 million euro in January 2006). The continuation of the current macro-economic climate permits one to hope for a further improvement in the Group's performance during the 2006 financial year.

In the light of this positive outlook, the Board of Directors has resolved to submit to the Stockholders' Meeting a resolution to distribute a dividend of €0.28 per share.



*Stockholders,*

*we hope that you will welcome the company's firm wish to continue with the policy of rewarding risk capital. We thank you for the trust extended to us and invite you to approve the Financial Statement being presented to you, allocating the profit for the financial year, amounting to 3,779,860 euro as follows:*

- ☐ *euro 1,529,090 to the Legal Reserve;*
- ☐ *euro 678,956 to the Reserve from the reinstatement of the value of equity investments;*
- ☐ *euro 164,546 to the Reserve for unrealized exchange differences;*
- ☐ *euro 121,354 euro to the reserve prescribed by Articles of Association;*
- ☐ *euro 1,285,914 as a dividend, amounting to 0.28 euro per share, excluding 7,450 treasury stock held in portfolio at 02/24/2006. Given that the specialist contract currently underway may cause a variation in the number of shares held in treasury stock, in the event of an increase in their number from the date of the Stockholders' Meeting, the dividend relating to these additional shares will be allotted to the extraordinary reserve.*

*On behalf of the Board of Directors*

*Chairman*



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*Gianfranco Carbonato*

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**CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2005**

**5. ACCOUNTING STATEMENTS**

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## PRIMA INDUSTRIE GROUP - Consolidated Balance Sheet at 12/31/05 & 12/31/04

(Values expressed in euro)

| Consolidated Balance Sheet                          | Nota | 31/12/05           | 31/12/04          |
|-----------------------------------------------------|------|--------------------|-------------------|
| Tangible fixed assets                               | 9.1  | 5.778.520          | 5.984.511         |
| Intangible fixed assets                             | 9.2  | 2.738.927          | 2.487.422         |
| Equity investments valued using the equity method   | 9.3  | 1.809.079          | 969.284           |
| Equity investments valued using the cost method     | 9.4  | 51.832             | 232               |
| Other financial assets                              | 9.5  | 272.117            | 249.478           |
| Other receivables                                   | 9.6  | 52.391             | 81.035            |
| <b>TOTAL NON CURRENT ASSETS</b>                     |      | <b>10.702.866</b>  | <b>9.771.962</b>  |
| Inventories                                         | 9.7  | 36.319.402         | 31.580.854        |
| Trade receivables                                   | 9.8  | 39.869.959         | 39.647.527        |
| Other receivables                                   | 9.9  | 3.048.672          | 3.095.227         |
| Other tax assets                                    | 9.10 | 1.357.085          | 2.043.815         |
| Tax assets - prepaid taxes                          | 9.11 | 6.946.898          | 7.071.463         |
| Derivative financial instruments                    | 9.12 | 4.595              | 309.804           |
| Cash and cash equivalents                           | 9.13 | 11.495.383         | 6.448.282         |
| <b>TOTAL CURRENT ASSETS</b>                         |      | <b>99.041.994</b>  | <b>90.196.972</b> |
| Non current assets held for sale                    |      | -                  | -                 |
| <b>TOTAL ASSETS</b>                                 |      | <b>109.744.860</b> | <b>99.968.934</b> |
| Capital stock                                       |      | 11.500.000         | 11.500.000        |
| Treasury stock                                      |      | (92.872)           | (170.606)         |
| Other reserves                                      |      | 16.656.427         | 16.394.443        |
| Conversion reserve                                  |      | 329.937            | (173.718)         |
| Profits (Losses) carried forward                    |      | (2.661.910)        | (2.911.767)       |
| Profit (loss) for the year                          |      | 5.107.631          | 1.043.212         |
| Total Group stockholders' equity                    |      | 30.839.213         | 25.681.564        |
| Minority interests                                  |      | -                  | -                 |
| <b>Total stockholders' equity</b>                   |      | <b>30.839.213</b>  | <b>25.681.564</b> |
| Loans                                               | 9.14 | 5.570.596          | 12.368.197        |
| Employee benefits                                   | 9.15 | 4.936.694          | 4.498.328         |
| Provision for risks and charges                     | 9.16 | 29.110             | 90.890            |
| Derivative financial instruments                    | 9.12 | 15.970             | 36.848            |
| <b>TOTAL NON CURRENT LIABILITIES</b>                |      | <b>10.552.370</b>  | <b>16.994.263</b> |
| Trade payables                                      | 9.17 | 23.089.151         | 19.417.485        |
| Advances                                            | 9.17 | 18.371.290         | 17.718.415        |
| Other payables                                      | 9.17 | 4.668.838          | 3.758.182         |
| Amounts due to banks and i.r.o loans                | 9.14 | 13.918.168         | 9.991.552         |
| Tax liabilities - deferred taxes                    | 9.18 | 2.502.156          | 2.538.233         |
| Tax liabilities - current taxes                     | 9.19 | 2.027.955          | 1.870.921         |
| Provision for risks and charges                     | 9.16 | 3.775.719          | 1.968.972         |
| Derivative financial instruments                    | 9.12 | -                  | 29.347            |
| <b>TOTAL CURRENT LIABILITIES</b>                    |      | <b>68.353.277</b>  | <b>57.293.107</b> |
| Liabilities due to non current assets held for sale |      | -                  | -                 |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |      | <b>109.744.860</b> | <b>99.968.934</b> |

## PRIMA INDUSTRIE GROUP - Consolidated Income Statement at 12/31/05 & 12/31/04

(Values expressed in euro)

| Income Statement                                             |      | 2005             | 2004             |
|--------------------------------------------------------------|------|------------------|------------------|
| Net revenues from sales and services                         |      | 110.884.661      | 97.106.312       |
| Other operating income                                       | 9.20 | 3.000.218        | 2.478.929        |
| Changes in inventories of semifinished and finished products |      | 1.903.152        | 3.030.646        |
| Increases in fixed assets for internal work                  | 9.21 | 62.886           | 157.343          |
| Use of raw materials, consumables, supplies and goods        |      | (55.422.679)     | (51.064.783)     |
| Personnel cost                                               | 9.22 | (26.040.097)     | (23.818.823)     |
| Amortization & Depreciation                                  | 9.23 | (1.208.232)      | (1.213.512)      |
| Impairment and Writedowns                                    |      |                  |                  |
| Other operating costs                                        | 9.24 | (25.263.299)     | (21.685.118)     |
| <b>OPERATING INCOME</b>                                      |      | <b>7.916.610</b> | <b>4.990.994</b> |
| Financial income                                             | 9.25 | 475.513          | 491.680          |
| Financial expenses                                           | 9.25 | (1.638.575)      | (1.747.067)      |
| Net income from transactions in foreign exchange             | 9.25 | 22.758           | (140.611)        |
| Net income from associated companies & joint ventures        | 9.26 | 336.716          | (164.032)        |
| <b>INCOME BEFORE TAX</b>                                     |      | <b>7.113.022</b> | <b>3.430.964</b> |
| Current and deferred taxes                                   | 9.27 | (2.005.391)      | (2.387.752)      |
| <b>NET RESULT</b>                                            |      | <b>5.107.631</b> | <b>1.043.212</b> |
| Income from assets held for disposal                         |      | -                | -                |
| <b>NET PROFIT</b>                                            | 9.28 | <b>5.107.631</b> | <b>1.043.212</b> |

## THE PRIMA INDUSTRIE GROUP - STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY

(Values expressed in thousands of Euro)

(Values expressed in thousands of Euro)

### From January 1, 2004 to December 31, 2004

|                                  | 01/01/2004        | Purchase/Sale<br>Treasury stock | Gains/Losses on disposal<br>treasury stock | Allocation of Result<br>Previous financial year | Allocation of Result<br>Previous financial year | Distribution<br>Dividends | Profit for the period | Conversion reserve | 30/06/2004        |
|----------------------------------|-------------------|---------------------------------|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|---------------------------|-----------------------|--------------------|-------------------|
| Capital stock                    | 11.500.000        |                                 |                                            |                                                 |                                                 |                           |                       |                    | 11.500.000        |
| Treasury stock                   | (323.797)         | 153.191                         |                                            |                                                 |                                                 |                           |                       |                    | (170.606)         |
| Share premium reserve            | 16.862.488        |                                 |                                            |                                                 | (1.197.595)                                     |                           |                       |                    | 15.664.893        |
| Legal reserve                    | 2.213.212         |                                 |                                            |                                                 | (1.483.662)                                     |                           |                       |                    | 729.550           |
| Other reserves                   | 0                 |                                 |                                            |                                                 | 0                                               |                           |                       |                    | -                 |
| Conversion reserve               | 0                 |                                 |                                            |                                                 |                                                 |                           |                       | (173.718)          | (173.718)         |
| Profits (losses) carried forward | (5.578.931)       |                                 | 11.058                                     | (25.151)                                        | 2.681.257                                       |                           |                       |                    | (2.911.767)       |
| Income (Loss) for the period     | 0                 |                                 |                                            |                                                 | 0                                               |                           | 1.043.212             |                    | 1.043.212         |
| <b>Total</b>                     | <b>24.672.972</b> | <b>153.191</b>                  | <b>11.058</b>                              | <b>(25.151)</b>                                 | <b>-</b>                                        | <b>-</b>                  | <b>1.043.212</b>      | <b>(173.718)</b>   | <b>25.681.564</b> |

### From January 1, 2005 to December 31, 2005

|                                  | 01/01/2005        | Purchase/Sale<br>Treasury stock | Gains/Losses on disposal<br>treasury stock | Allocation of Result<br>Previous financial year | Allocation of Result<br>Previous financial year | Distribution<br>Dividends | Profit for the period | Conversion reserve | 31/12/2005        |
|----------------------------------|-------------------|---------------------------------|--------------------------------------------|-------------------------------------------------|-------------------------------------------------|---------------------------|-----------------------|--------------------|-------------------|
| Capital stock                    | 11.500.000        |                                 |                                            |                                                 |                                                 |                           |                       |                    | 11.500.000        |
| Treasury stock                   | (170.606)         | 77.734                          |                                            |                                                 |                                                 |                           |                       |                    | (92.872)          |
| Share premium reserve            | 15.664.893        |                                 |                                            |                                                 |                                                 |                           |                       |                    | 15.664.893        |
| Legal reserve                    | 729.550           |                                 |                                            |                                                 | 41.360                                          |                           |                       |                    | 770.910           |
| Other reserves                   | -                 | 77.735                          |                                            |                                                 | 142.889                                         |                           |                       |                    | 220.624           |
| Conversion reserve               | (173.718)         |                                 |                                            |                                                 |                                                 |                           |                       | 503.655            | 329.937           |
| Profits (losses) carried forward | (2.911.767)       | (77.735)                        | 123.176                                    | (11.597)                                        | 858.963                                         | (642.950)                 |                       |                    | (2.661.910)       |
| Income (Loss) for the period     | 1.043.212         |                                 |                                            |                                                 | (1.043.212)                                     |                           | 5.107.631             |                    | 5.107.631         |
| <b>Total</b>                     | <b>25.681.564</b> | <b>77.734</b>                   | <b>123.176</b>                             | <b>(11.597)</b>                                 | <b>-</b>                                        | <b>(642.950)</b>          | <b>5.107.631</b>      | <b>503.655</b>     | <b>30.839.213</b> |

# PRIMA INDUSTRIE GROUP - CASH FLOW STATEMENT

Year ended December 31, 2004 and December 31, 2005

(Values expressed in euro)

|                                                             | 2005           | 2004           |
|-------------------------------------------------------------|----------------|----------------|
| <b>Cash flow derived from operating activity</b>            |                |                |
| Profit (Loss) before tax                                    | 7.113          | 3.431          |
| Adjustments                                                 | 2.753          | 3.491          |
| Amortization for the financial year                         | 1.208          | 1.214          |
| Provisions raised to Employees' severance fund              | 742            | 717            |
| Loss (Profit) on exchange rates for currency transactions   | (23)           | 141            |
| Loss (Income) from equity investments                       | (337)          | 164            |
| Financial expenses                                          | 1.639          | 1.747          |
| Financial (income)                                          | (476)          | (492)          |
|                                                             | <b>9.866</b>   | <b>6.922</b>   |
| (Increase) /Decrease in trade and other receivables         | 785            | 205            |
| (Increase) /Decrease in inventories                         | (3.175)        | (1.461)        |
| Increase / (Decrease) in trade payables                     | 4.224          | 4.072          |
| Increase / (Decrease) in other payables                     | 1.171          | 363            |
|                                                             | <b>12.871</b>  | <b>10.101</b>  |
| <b>Cash flow from typical activity</b>                      |                |                |
| Interest payment                                            | (1.571)        | (1.679)        |
| Tax payment                                                 | (1.462)        | (1.357)        |
|                                                             | <b>9.838</b>   | <b>7.065</b>   |
| <b>Cash flow derived from investment activity</b>           |                |                |
| Purchase of PRIMA GmbH branch                               | (969)          | -              |
| Purchase of tangible fixed assets                           | (903)          | (1.097)        |
| Purchase of intangible fixed assets                         | (363)          | (143)          |
| Sale /(Purchase) of financial assets (at cost)              | (52)           | -              |
| Sale /(Purchase) investments in associates                  | (503)          | -              |
| Receipts from sales of fixed assets                         | 68             | 362            |
| Interest encashed                                           | 476            | 492            |
|                                                             | <b>(2.246)</b> | <b>(386)</b>   |
| <b>Cash flow derived from financing activity</b>            |                |                |
| Variation in the conversion reserve                         | 504            | (174)          |
| (Purchase)/sale of treasury stock                           | 188            | 139            |
| Changes in balance- derivative instruments (FV)             | 255            | (43)           |
| Stipulation of loans and financing                          | 7.842          | 4.508          |
| Repayments of loans and financing                           | (9.657)        | (7.047)        |
| (Repayments)/ Raising of financial leases                   | (258)          | (125)          |
| (Repayments)/ Raising of Sabatini transactions              | (776)          | (1.096)        |
| Dividends paid                                              | (643)          | -              |
|                                                             | <b>(2.545)</b> | <b>(3.838)</b> |
| <b>Increase (decrease) in the cash and cash equivalents</b> | <b>5.047</b>   | <b>2.841</b>   |
| <b>Cash and cash equivalents at the start of the period</b> | <b>6.448</b>   | <b>3.607</b>   |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>11.495</b>  | <b>6.448</b>   |



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**NOTES TO THE FINANCIAL STATEMENT -  
EXPOUNDING NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

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## 6. ACCOUNTING PRINCIPLES

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### □ GROUP ACTIVITIES

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

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

The company's main business is focused in the sector of laser machines for cutting and welding.

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

The company may also acquire and grant manufacturing licences.

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

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

PRIMA INDUSTRIE GmbH, (a company incorporated in terms of German law), was primarily engaged in providing after-sales services. The company recommenced operations with effect from 07/01/2005 pursuant to the acquisition of the branch of the business from Matra, relative to the distribution of the PRIMA machines on the German market.

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

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

### □ VALUATION CRITERIA

These Consolidated Financial Statements refer to the financial year closed at December 31<sup>st</sup>, 2005 and were prepared according to *International Financial Reporting Standards* (IFRS). In particular, IFRS1 was applied because the Group adopted IFRS for the first time with reference to financial year 2004.

The valuation criteria were applied with continuity starting from the data at January 1, 2004 including those applicable to the classification and measurement of the financial instruments.

The previous consolidated Financial Statements of the PRIMA INDUSTRIE Group were prepared in accordance with the provisions of the Italian Civil Code and the accounting principles of the Italian Accounting Profession, which differ in certain areas of the Financial Statements, from IFRS. The



comparative information relative to 2004 was thus amended to take account of the adjustments made.

These Consolidated Financial Statements were drawn up using the cost principle except for financial assets belonging to the category "financial assets held for sale" and in respect of financial assets and liabilities (including derivative financial instruments) falling into the category at fair value, with changes in fair value being recorded in the Income Statement.

The preparation of the Financial Statements in accordance with IFRS inevitably requires recourse to accounting estimates and the expression of opinions by the Directors of the company. Areas of Financial Statements requiring more complex estimates and a more intensive recourse to Directors' assessments are indicated below.

#### □ **IFRS and the IFRIC interpretations not yet approved**

During the past months IASB (International Accounting Standards Board) and IFRIC (the International Financial Reporting Interpretation Committee) have published new Principles and Interpretations; notwithstanding the fact that as at the date hereof these Principles and Interpretations have not yet been approved by the Community Legislator, the Group has nonetheless considered the effects, highlighting the potential impact on its Balance Sheet and Income Statement position as follows:

| <i>IFRS/FRIC INTERPRETATION</i>                                                         | <i>EFFECTS FOR THE GROUP</i>                                                                            |
|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| IAS 39<br>AMENDMENT FAIR VALUE OPTION                                                   | NONE                                                                                                    |
| IAS 39<br>AMENDMENT CASH FLOW HEDGE<br>ACCOUNTING OF FOREIGN INTRAGROUP<br>TRANSACTIONS | NONE                                                                                                    |
| IFRS6<br>EXPLORATION RIGHTS AND VALUATION OF<br>MINING ASSETS                           | NONE:<br>THE GROUP DOES NOT CARRY OUT ANY EXPLORATION ACTIVITIES<br>AND DOES NOT HAVE ANY MINING ASSETS |
| IFRS7<br>FINANCIAL INSTRUMENTS DISCLOSURES                                              | THE GROUP WILL ADEQUATE THE INFORMATION ABOUT ITS<br>FINANCIAL INSTRUMENTS STARTING FROM 1/01/2007      |
| IFRIC2<br>SHAREHOLDINGS IN COOPERATIVES AND<br>SIMILAR INSTRUMENTS                      | NONE                                                                                                    |
| IFRIC3<br>EMISSION RIGHTS                                                               | NONE:<br>THE GROUP DOES NOT PARTICIPATE<br>IN "EMISSION RIGHTS SCHEMES"                                 |

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|                                                                                                       |                                                                                                                 |
|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| IFRIC4                                                                                                |                                                                                                                 |
| DETERMINING WHETHER A CONTRACT CONTAINS A LEASE                                                       | NONE                                                                                                            |
| IFRIC5                                                                                                | NONE:                                                                                                           |
| RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS  | THE GROUP DOES NOT HAVE ANY INTERESTS IN FUNDS FOR THE DECOMMISSIONING, RESTORATION AND REHABILITATION OF SITES |
| IFRIC6                                                                                                |                                                                                                                 |
| LIABILITIES ARISING FROM PARTICIPATION IN A SPECIFIC MARKET –SCRAP ELECTRIC AND ELECTRONICAL MATERIAL | NONE: THE GROUP DOES NOT PARTICIPATE IN SUCH KIND OF MARKETS                                                    |

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## □ Consolidation principles

### (a) Subsidiaries

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

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

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

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

The identifiable assets and liabilities acquired are initially recorded in the Consolidated Financial Statements at fair value, determined at the date of acquisition, without considering the minority interests.

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

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

### (b) Associated companies & Joint Ventures

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

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

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

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

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

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

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

#### □ **Segment report**

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

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

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

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

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

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

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

#### □ **Conversion of items in foreign currency**

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

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

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

The transactions in non-euro currencies are initially stated at the exchange rate applicable on the date of the transaction.

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

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

(c) *Companies of the Group*

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

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

□ **Tangible assets**

All the tangible fixed asset categories, including the investment in real estate are included in the Financial Statements at historical cost, reduced by depreciation and impairment, except for land, which is recorded at historical cost reduced by impairment. The cost includes all expenses directly attributable to the purchase.

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

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

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

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

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

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

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

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

□ **Intangible assets**

(a) *Goodwill*

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

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

(b) *Software*

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

The costs linked to the development and maintenance of software programmes are considered to be costs for the period and are therefore allocated to the applicable Income Statement.

(c) *Research and development costs*

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

The development costs incurred for an identifiable project are capitalized amongst the intangible fixed assets, if they can be reliably measured and if it is likely that the project to which they are tied will be successful, both in relation to its technical feasibility, as well as in regard to its market penetration.

The development costs allocated to the Income Statement in previous financial years are capitalized retrospectively if, in a later period they reflect the necessary characteristics.

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

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

(d) *Other intangible assets*

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 reduced by impairment only.

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

The other intangible assets are annually tested for impairment - this analysis can be carried out at the level of the individual intangible asset or on the basis of the cash flow generating unit.

The useful life of other intangible fixed assets is reviewed annually: any changes, where this is possible, are made with a prospectual applications.

#### □ **Recovery value of the asset (impairment)**

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

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

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

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

#### □ **Financial assets**

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

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

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

This category is divided into two classes: 1) financial assets held for trading and 2) those assigned to this category from the beginning. A financial asset is placed in this category if it was mainly acquired for resale in the short-term or if it is put in this category by the Directors.

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

The financial assets of these two classes are placed amongst current assets if they are of the "held for trading" type or if it is envisaged that they will be sold within 12 months of the date of closure of the Financial Statements.

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

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

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

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

(d) *Financial investments held for sale*

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

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

All 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.

The financial assets are reversed from the Financial Statements when the right to receive the financial flows ceased or was transferred, or when the Group has substantially transferred all the risks and benefits of ownership to third parties.

The two classes of financial assets "held for sale" and at "fair value with changes in value recorded in the Income Statement", 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. When the securities classified as "held for sale" are sold or undergo an impairment in value, the accumulated adjustments to their fair value in stockholders' equity are transferred to the Income Statement as gains or losses arising on the sale.

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

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

□ **Inventories**

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

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

## ❑ **Trade and other receivables**

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

## ❑ **Cash and cash equivalents**

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

## ❑ **Capital stock**

The ordinary shares are classified in stockholders' equity.

The additional expenses directly tied to the issue of the stock or the options are recorded in the equity as a reduction of the cash received.

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

## ❑ **Loans**

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

The loans are recorded amongst short-term liabilities, provided that the Group does not have an unconditional right to defer the loan 12 months beyond the closure of the Financial Statements.

## ❑ **Deferred taxes**

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

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



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

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

The receivables for prepaid taxes are re-examined at the closure of each financial year and they are reduced to the extent that it is no longer likely that sufficient taxable income will become available in the future to enable the receivable to be wholly or partially used.

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

The deferred taxes relating to the components disclosed directly in the stockholders' equity are also allocated directly to stockholders' equity.

#### □ **Employee benefits**

##### *(a) Pension schemes*

The Group considers the Employees' severance fund to be a defined benefits plan and the Cometa Fund (a supplementary fund to the national collective labour contract) as a defined contributions plan.

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

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

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

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

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

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

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

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

The liability recorded in the Financial Statement in the face of these benefits is the present value of the obligation at the date of closure of the Financial Statements, net of the fair value of the assets at the service of the plans (where they exists), both corrected for the amount of the actuarial gains and losses and for the cost relative to matured benefits. The obligation is determined annually by an independent actuary using the projected unit credit method. The present value of the obligation is determined by discounting the estimate of the 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 cumulative total of the actuarial losses and gains, derived from the variations in the estimates made, which exceeds 10% of the greater of the "fair value" of the assets at the service of the plan (where they exist) and 10% of the obligation in existence, is allocated to the Income Statement using the accrual principle on the basis of the expected remaining number of working years compared to the date of reaching the pre-established age of seniority by the employees who enjoy such benefits.

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

These benefits are due to the worker on the early termination of the employment relationship, compared to the retirement date or in the face of a termination arising out of a corporate restructuring plan. The Group records a liability in the Financial Statements to meet such benefits when: a) a formal and detailed plan exists in respect of the early retirement incentives without the possibility that the employee renounces them b) an offer is made to the employees to encourage their voluntary retirement. The amounts payable beyond 12 months of the closure of the Financial Statements are discounted back.

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

The Group records a cost and a debt to meet the liabilities that arise for bonuses, employee incentives and profit-sharing schemes, determined using a formula that takes into account the profits attributable to the stockholders after certain adjustments are made. The Group records a liability to a provision only if contractually obliged or if a custom exists that defines an implicit obligation to do so.

(e) *Employee benefits granted in shares*

The management of the Group, on a discretionary basis and from time to time allocates bonuses to key-employees, in the form of options on company stock (stock option plans). The right to exercise the options matures on the basis of personal objectives after a year's service. The fair value of the options is a working cost for the financial year, which for the entire maturity period of the options, causes an appropriate reserve to be raised to stockholders' equity. At the time when the option is exercised the amount received, net of any transaction costs, is allocated to capital stock (for the par value portion of the shares) and to the Share premium reserve (for the premium portion). At the moment there are no stock option plans in place in favour of employees of the Group.

□ **Provisions for risks and charges**

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.

The restructuring provisions include both the liability arising from the early retirement incentives, as well as the penalty tied to the termination of leasing contracts. Provisions cannot be raised to the provisions for risks and charges to meet future operating losses.

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

□ **Recognition of revenues**

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

(a) *Sale of goods*

Revenue is recognized when the company transfers the risks and the important benefits implicit to ownership of the goods, and the amount thereof can be reliably estimated.

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.

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

As a result of the fact that 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. The Group has chosen this presentation, instead of reducing the "trade receivables" account, because this option protects the portrayal of the underlying contractual relationship.

(b) *Performance of services*

The revenues from the performance of services are accounted for on the basis of the completion in the financial year in which they are rendered.

(c) *Interest*

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

(d) *Royalties*

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

(e) *Dividends*

Dividends are accounted for in the financial year in which the stockholders' right to receive payment of the dividend arose.

□ **Leasing**

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

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

The interest expense is allocated to the Income Statement for the duration of the contract.

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

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

#### ❑ **Distribution of dividends**

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

#### ❑ **State 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 the Group has satisfied all the requirements dictated by the conditions to obtain them (obtaining the competent Ministerial resolution).

The revenues in respect of state grants are recorded in the Income Statement on the basis of the costs for which they were granted being incurred.

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

#### ❑ **The financial risk factors**

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

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

The financial risk factors that influence the Group can be summarized as follows:

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

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

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

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

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

The Group holds equity investments in the Chinese Joint Ventures, Shenyang Prima Machine Laser Co. Ltd (50%) and Shanghai Unity Prima Laser Machinery Co. Ltd (27.5%). The value of these equity investments is respectively subject to currency risk arising from the variation of the USD and the Renminbi (RMB) in relation to the euro. The Group does not believe that the value of the equity investments is such that specific hedging activity is required to cover the currency risk.

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

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

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

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

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

#### □ **Accounting in respect of derivative financial instruments**

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

## □ The estimate of fair value

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

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

The fair value of the IRS contracts is determined by discounting the estimated financial flows derived from them. On the other hand, for the forward contracts the forward market rates at the Balance Sheet date are used.

For receivables one assumes that the nominal value, net of any adjustments made to take account of the possibility that they might not be collected, approximates fair value.

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

## 7. BUSINESS COMBINAT ION

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On 07/01/2005 the agreement in terms of which the subsidiary PRIMA GmbH acquired from MATRA (a company of the Linde Group, with its offices in Frankfurt, Germany) the branch of the business for the distribution and after-sales service of the PRIMA INDUSTRIE laser machines on the German market, came into full effect.

The purchase price, being the balance of the assets purchased and the liabilities assumed, was fixed in a sum of 779 thousand euro.

In terms of the contract, the aforesaid amount has not yet been paid by the purchaser because settlement is linked to PRIMA GmbH's receiving the money from the sales of machines in stock. In any case the price and the related VAT must be settled within and not beyond March 31, 2006.

In terms of IFRS 3 paragraph 67, the breakdown of the selling price by class of asset is set out:

| <b>ASSETS (thousands of euro)</b>                       |              |
|---------------------------------------------------------|--------------|
| Intangible assets                                       | 78           |
| Tangible assets                                         | 32           |
| Finished products inventories                           | 1.099        |
| Spare parts & inventories accessories                   | 464          |
| Prepaid costs:                                          |              |
| -employees                                              | 27           |
| -suppliers                                              | 98           |
| <b>TOTAL ASSETS</b>                                     | <b>1.798</b> |
| <b>LIABILITIES (thousands of euro)</b>                  |              |
| Pension plans & other deferred liabilities to employees | 278          |
| Current liabilities to employees                        | 108          |
| Invoices pending                                        | 100          |
| Warranty provision                                      | 33           |
| Restructuring provision                                 | 150          |
| Integration costs provision                             | 350          |
| <b>TOTAL LIABILITIES</b>                                | <b>1.019</b> |
| <b>NET BALANCE (PURCHASE PRICE)</b>                     | <b>779</b>   |



The analysis required by IFRS 3 relative to the recordability in the Financial Statements of the various classes of assets and liabilities has led to the following results:

|                                                         |              |
|---------------------------------------------------------|--------------|
| <b>ASSETS (thousands of euro)</b>                       |              |
| Intangible assets                                       | 25           |
| Tangible assets                                         | 32           |
| Finished products inventories                           | 1.099        |
| Spare parts & inventories accessories                   | 464          |
| Prepaid costs:                                          |              |
| -employees                                              | 27           |
| -suppliers                                              | 98           |
| Deferred tax assets                                     | 19           |
| <b>TOTAL ASSETS</b>                                     | <b>1.764</b> |
| <b>LIABILITIES (thousands of euro)</b>                  |              |
| Pension plans & other deferred liabilities to employees | 278          |
| Current liabilities to employees                        | 108          |
| Invoices pending                                        | 100          |
| Warranty provision                                      | 33           |
| Restructuring provision                                 | 150          |
| Deferred tax liabilities                                | 126          |
| <b>TOTAL LIABILITIES</b>                                | <b>795</b>   |
| <b>NET BALANCE (PURCHASE PRICE)</b>                     | <b>969</b>   |

An excess of the balance of the asset/liabilities purchased compared to the agreed price emerged from the analysis (so-called negative goodwill) amounting to 190 thousand euro, was recorded in the Income Statement.

This amount, which is recorded in "Other operating revenues" stems from it not being possible to record, in terms of IAS-IFRS, the goodwill in an amount of 53 thousand euro and integration costs of 350 thousand euro, which do not meet the requirements of IAS 37 in order to be recorded amongst the liabilities, as well as the related deferred tax.

During the second half of 2005, that is the first period in which the financial results of the branch of the business were considered in the Financial Statements of the Group, PRIMA GmbH achieved a net result of 116 thousand euro, inclusive of negative goodwill of 190 thousand euro, with sales of 2,478 thousand euro. The sales and results were determined in accordance with IAS-IFRS.

As regards the information required by IFRS 3 paragraph 70, relative to turnover and the pro-forma financial result of the branch of the business if the acquisition of such business had been effected at 01/01/2005, such information over and above being insignificant, cannot be reliably estimated because during the first half of 2005 the activity of the branch of the business was negatively influenced by the climate of uncertainty that followed on MATRA's decision to transfer the business in question.

## 8. SEGMENT REPORT

### Primary Segment

#### Segment information - 31/12/2005

|                                                         | Segment 1 -<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated | Group              |
|---------------------------------------------------------|---------------------------------------------|---------------------------------------|-------------|--------------------|
| Total segment sales<br>(intra-sector sales)             | 98.287                                      | 16.369<br>(3.771)                     | -           | 114.656<br>(3.771) |
| <b>Sales</b>                                            | 98.287                                      | 12.598                                | -           | 110.885            |
| Operating Result                                        | 7.484                                       | 433                                   |             | 7.917              |
| Net Financial charges                                   | (1.104)                                     | (36)                                  |             | (1.140)            |
| Net Result from Associated companies and Joint Ventures | 337                                         | -                                     |             | 337                |
| <b>Result before taxes</b>                              |                                             |                                       |             | 7.114              |
| Taxes                                                   |                                             |                                       |             | (2.005)            |
| <b>Net Result</b>                                       |                                             |                                       |             | 5.109              |

#### Segment information - 31/12/2004

|                                                         | Segment 1 -<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated | Group              |
|---------------------------------------------------------|---------------------------------------------|---------------------------------------|-------------|--------------------|
| Total segment sales<br>(intra-sector sales)             | 85.324                                      | 14.890<br>(3.108)                     |             | 100.214<br>(3.108) |
| <b>Sales</b>                                            | 85.324                                      | 11.782                                | -           | 97.106             |
| Operating Result                                        | 4.247                                       | 744                                   |             | 4.991              |
| Net Financial charges                                   | (1.347)                                     | (49)                                  |             | (1.396)            |
| Net Result from Associated companies and Joint Ventures | (164)                                       |                                       |             | (164)              |
| <b>Result before taxes</b>                              |                                             |                                       |             | 3.431              |
| Taxes                                                   |                                             |                                       |             | (2.388)            |
| <b>Net Result</b>                                       |                                             |                                       |             | 1.043              |

The intra sector sales were fixed according to market prices by adopting the “cost plus” method.

## Primary Segment

### Depreciation & Amortisation - 12/31/2005

|                                   | Segment 1-<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated | Group        |
|-----------------------------------|--------------------------------------------|---------------------------------------|-------------|--------------|
| Depreciation of Tangible Assets   | 787                                        | 285                                   |             | 1.072        |
| Amortisation of Intangible Assets | 84                                         | 52                                    |             | 136          |
| <b>Total</b>                      | <b>871</b>                                 | <b>337</b>                            |             | <b>1.208</b> |

### Depreciation & Amortisation - 12/31/2004

|                                   | Segment 1-<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated | Group        |
|-----------------------------------|--------------------------------------------|---------------------------------------|-------------|--------------|
| Depreciation of Tangible Assets   | 662                                        | 288                                   |             | 950          |
| Amortisation of Intangible Assets | 213                                        | 50                                    |             | 263          |
| <b>Total</b>                      | <b>875</b>                                 | <b>338</b>                            |             | <b>1.213</b> |

### Assets & Liabilities - Capital expenditure - 12/31/2005

|                                             | Segment 1-<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated   | Group          |
|---------------------------------------------|--------------------------------------------|---------------------------------------|---------------|----------------|
| Assets                                      | 75.528                                     | 12.264                                | 20.076        | 107.868        |
| Associated companies and Joint Ventures     | 1.809                                      | 68                                    |               | 1.877          |
| <b>Total assets</b>                         | <b>77.337</b>                              | <b>12.332</b>                         | <b>20.076</b> | <b>109.745</b> |
| Liabilities                                 | 48.622                                     | 6.249                                 | 24.035        | 78.906         |
| Financial year's capital expenditure - 2005 | 987                                        | 279                                   | -             | 1.266          |

### Assets & Liabilities - Capital expenditure - 12/31/2004

|                                             | Segment 1-<br>Laser systems<br>and sources | Segment 2 -<br>Electronic<br>products | Unallocated  | Group         |
|---------------------------------------------|--------------------------------------------|---------------------------------------|--------------|---------------|
| Assets                                      | 77.323                                     | 11.625                                | 9.984        | 98.932        |
| Associated companies and Joint Ventures     | 969                                        | 68                                    |              | 1.037         |
| <b>Total assets</b>                         | <b>78.292</b>                              | <b>11.693</b>                         | <b>9.984</b> | <b>99.969</b> |
| Liabilities                                 | 41.734                                     | 5.718                                 | 26.835       | 74.287        |
| Financial year's capital expenditure - 2004 | 869                                        | 371                                   | -            | 1.240         |

## Secondary Segment

### Geographic sector - 12/31/2005

|                     | Italy  | Europe | USA    | Rest of<br>the world | Group   |
|---------------------|--------|--------|--------|----------------------|---------|
| Sales               | 30.082 | 45.553 | 21.140 | 14.110               | 110.885 |
| Assets              | 74.171 | 8.497  | 27.077 | -                    | 109.745 |
| Capital Expenditure | 1.167  | 974    | 94     | -                    | 2.235   |

### Geographic sector - 12/31/2004

|                     | Italy  | Europe | USA    | Rest of<br>the world | Group  |
|---------------------|--------|--------|--------|----------------------|--------|
| Sales               | 26.347 | 35.003 | 19.886 | 15.870               | 97.106 |
| Assets              | 71.263 | 5.056  | 23.650 | -                    | 99.969 |
| Capital Expenditure | 1.112  | 45     | 83     | -                    | 1.240  |

## 9. EXPLANATORY DETAILS OF THE CONSOLIDATED FINANCIAL STATEMENTS



### NOTE:

THE VALUES REFLECTED IN THE TABLES SET OUT HEREINBELOW ARE EXPRESSED IN THOUSANDS OF EURO

### Note 9.1. Tangible fixed assets

|                                         | Land and<br>buildings | Plant and<br>machinery | Industrial and<br>commercial<br>equipment | Other assets | Total    |
|-----------------------------------------|-----------------------|------------------------|-------------------------------------------|--------------|----------|
| <b>01.01.04</b>                         |                       |                        |                                           |              |          |
| Historical cost                         | 3.396                 | 3.833                  | 4.232                                     | 4.878        | 16.339   |
| Accumulated depreciation                | (296)                 | (2.309)                | (3.491)                                   | (4.041)      | (10.137) |
| Net value at 01.01.04                   | 3.100                 | 1.524                  | 741                                       | 837          | 6.202    |
| <b>Year 2004</b>                        |                       |                        |                                           |              |          |
| Net value at 01.01.04                   | 3.100                 | 1.524                  | 741                                       | 837          | 6.202    |
| Exchange differences                    |                       | (106)                  | (49)                                      | (158)        | (313)    |
| Increases                               | 84                    | 254                    | 230                                       | 272          | 840      |
| Disposals                               |                       | (113)                  |                                           | (249)        | (362)    |
| Depreciation                            | (88)                  | (204)                  | (282)                                     | (270)        | (844)    |
| Utilization of accumulated depreciation |                       | 72                     |                                           | 146          | 218      |
| Exchange differences on accum. deprec.  |                       | 53                     | 58                                        | 133          | 244      |
| Net value at 31.12.04                   | 3.096                 | 1.480                  | 698                                       | 711          | 5.985    |
| <b>Year 2005</b>                        |                       |                        |                                           |              |          |
| Historical cost                         | 3.480                 | 3.868                  | 4.413                                     | 4.743        | 16.504   |
| Accumulated depreciation                | (384)                 | (2.388)                | (3.715)                                   | (4.032)      | (10.519) |
| Net value at 01.01.05                   | 3.096                 | 1.480                  | 698                                       | 711          | 5.985    |
| <b>Year 2005</b>                        |                       |                        |                                           |              |          |
| Net value at 01.01.05                   | 3.096                 | 1.480                  | 698                                       | 711          | 5.985    |
| Exchange differences                    |                       | 191                    | 97                                        | 272          | 560      |
| Increases                               | -                     | 361                    | 141                                       | 256          | 758      |
| Restatement                             |                       | 868                    | (727)                                     | 378          | 519      |
| Disposals                               |                       | (30)                   |                                           | (38)         | (68)     |
| Depreciation                            | (92)                  | (338)                  | (275)                                     | (367)        | (1.072)  |
| Utilization of accumulated depreciation |                       |                        |                                           | 35           | 35       |
| Exchange differences on accum. deprec.  |                       | (86)                   | (78)                                      | (255)        | (419)    |
| Reclassific. accum. deprec.             |                       | (771)                  | 630                                       | (378)        | (519)    |
| Net value at 12.31.05                   | 3.004                 | 1.675                  | 486                                       | 614          | 5.779    |
| <b>12/31/05</b>                         |                       |                        |                                           |              |          |
| Historical cost                         | 3.480                 | 5.258                  | 3.924                                     | 5.611        | 18.273   |
| Accumulated depreciation                | (476)                 | (3.583)                | (3.438)                                   | (4.997)      | (12.494) |
| Net value at 12.31.05                   | 3.004                 | 1.675                  | 486                                       | 614          | 5.779    |

The value of the land and buildings was assessed at 12/31/03 by an external assessor, who determined the fair value; at 12/31/05 the said value was not less than that recorded in the Financial Statements.

This item relates to:

- 2 properties owned by the Group, with a net value at 12/31/2005 of 808 thousand euro in respect of the buildings and 552 thousand euro for the land;
- 1 property under a financial lease with a net value at 12/31/2005 of 994 thousand euro for the building and 463 thousand euro for the land;
- Light constructions with a net value at 12/31/2005 of 186 thousand euro.

The item "Other Assets" includes leased electronic and office machines for a net value of 46 thousand euro.

The exchange differences arise from the conversion of the Financial Statements of the companies operating in non euro areas.

As per IAS 16 par 74 there are no restrictions on the title and ownership of Property, Plant and Equipment, except for the financial lease contracts mentioned above

## Note 9.2.

### Intangible fixed assets

|                           | Goodwill  | Other assets | Total     |
|---------------------------|-----------|--------------|-----------|
| <b>Year 2004</b>          |           |              |           |
| Net value at 01.01.04     | 2.415     | 192          | 2.607     |
| Exchange differences      | (175)     | -            | (175)     |
| Increases                 | 58        | 115          | 173       |
| depreciation              | -         | (117)        | (117)     |
| Net value at 12.31.04     | 2.298     | 190          | 2.488     |
| <br>Net value at 01.01.05 | <br>2.298 | <br>190      | <br>2.488 |
| Exchange differences      | 346       | -            | 346       |
| Increases/(decreases)     | (57)      | 98           | 41        |
| depreciation              | -         | (136)        | (136)     |
| Net value at 12.31.05     | 2.587     | 152          | 2.739     |

The item *Goodwill* is the greater amount recognized as being due to the seller for the acquisition during 2000 and 2001 of the activities of the LASERDYNE SYSTEMS and CONVERGENT LASERS divisions that merged into the present PRIMA North America Inc. - i.e. the difference between the assets and liabilities acquired.

The item "*Other Assets*" refers to software for 105 thousand euro and other minor items of 47 thousand euro.

## Impairment of goodwill

Goodwill was subjected to the "impairment test".

The value of the goodwill was not reduced insofar as the result of the test was positive.

For the purpose of the "impairment test" the goodwill was allocated to the respective smallest cash-generating units, which coincide with the operating units identified in the respective sectors.

The goodwill shown in the Financial Statements relates to the two cash-generating units made up of the LASERDYNE SYSTEMS and CONVERGENT LASERS divisions of PRIMA North America, Inc.

The recoverable value of the smallest cash-generating units was determined by calculating their use value or rather by discounting the future projected cash-flows of each smallest revenue-generating unit obtained from the four-year plans prepared by management.

A summary of the main assumptions made in respect of each cash-generating unit is set out below:

### Main assumptions for the analysis of the recoverable value

| Cash-generating unit               | Laserdyne<br>Systems<br>Division | Convergent<br>Lasers<br>Division |
|------------------------------------|----------------------------------|----------------------------------|
| Gross operating margin (2006-2008) | 16,8%                            | 13,6%                            |
| Growth rate (CAGR 05-08)           | 18,5%                            | 10%                              |
| Discounting rate                   | 6,03%                            | 6,03%                            |

In particular, the assumptions set out above are based on the following:

- a 66% growth in sales in 4 years in Laserdyne, based on the growth forecasted in the 2006 Budget compared to the year 2005 and therefore assuming stable sales compared to 2006; a strong growth compared to 2005 justified on the basis of the good trend forecasted for the aerospace sector;
- a 33% increase in sales in 4 years in the Convergent division; here too, this was based on the growth forecasted in the 2006 Budget compared to the year 2005 and therefore assuming stable sales compared to 2006; it must be considered that the growth is amply justified by the fact that about 90% of the sales of the CONVERGENT division are captive, in that they are directed at other divisions of the same PNA or the Parent Company PRIMA INDUSTRIE;
- reduction of the business margin for Laserdyne due to the increase in forecasted sales;
- stability of the sales margin in Convergent, given the captive nature of the market;
- strong growth in absolute terms of the research and development costs, retaining a percentage of 7% of the sales for Convergent and 5% for Laserdyne;
- growth of 2-3% in the absolute value of the total administrative and sales expenses.

The sum of the Gross Operating margins (EBITDA) has been discounted taking into account the average cost of the PRIMA North America borrowings at 12/31/2005 - this amount was compared to the amount recorded in respect of goodwill and other tangible assets.

## Note 9.3

### Equity investments valued using the equity method

#### Equity investments in associated companies

|                                         | MLTA |   |   | Total |
|-----------------------------------------|------|---|---|-------|
| <b>01.01.04</b>                         | 10   | - | - | 10    |
| Increases                               | 57   | - | - | 57    |
| Other movements in stockholders' equity | (57) | - | - | (57)  |
| <b>12/31/04</b>                         | 10   | - | - | 10    |
| Share of the result increases           | (41) | - | - | (41)  |
| Increases                               | -    | - | - | -     |
| Other movements in stockholders' equity | 57   | - | - | 57    |
| <b>12/31/05</b>                         | 26   | - | - | 26    |

#### Equity investments in Joint Ventures

|                                         | SPLMT<br>(1) | SNK   | Shanghai<br>Unity<br>Prima<br>(2) | Totale |
|-----------------------------------------|--------------|-------|-----------------------------------|--------|
| <b>01/01/2004</b>                       | 284          | 390   | 449                               | 1.123  |
| Share of the result                     | (39)         | (125) | -                                 | (164)  |
| Increases                               | -            | -     | -                                 | -      |
| Other movements in stockholders' equity | -            | -     | -                                 | -      |
| <b>12/31/04</b>                         | 245          | 265   | 449                               | 959    |
| Share of the result                     | (75)         | (50)  | 502                               | 377    |
| Increases                               | 416          | -     | -                                 | 416    |
| Other movements in stockholders' equity | -            | -     | 30                                | 30     |
| <b>12/31/05</b>                         | 586          | 215   | 981                               | 1.782  |

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

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

As regards equity investments in associated companies, the investments in Macro Meccanica S.p.A (placed into liquidation at the end of 1999) and in Mechanical Industries (which was placed into liquidation on March 28-31, 2003) are carried in the Financial Statements at a nil balance, the investments having been completely written down.

Insofar as the investments in Joint Ventures are concerned, there was an increase in the investment in SPLMT of 416 thousand Euro (equal to 500 thousand USD) as a result of the increase in capital stock of 1,000,000 USD shared in equally by the partners, leaving their respective stakes unchanged.



**Information relating to investments:**

| <b>MLTA Srl</b>               | <b>12/31/05</b>  | <b>12/31/04</b>  |
|-------------------------------|------------------|------------------|
| Non current assets            | 84               | 124              |
| Current assets                | 1.171            | 1.150            |
|                               | <u>1.255</u>     | <u>1.274</u>     |
| Non current liabilities       | 245              | 267              |
| Current liabilities           | 945              | 944              |
|                               | <u>1.190</u>     | <u>1.211</u>     |
| <b>Net assets</b>             | <b><u>65</u></b> | <b><u>63</u></b> |
| Income                        | 1.793            | 1.484            |
| Costs                         | (1.779)          | (1.469)          |
| <b>Income before taxation</b> | <b><u>14</u></b> | <b><u>15</u></b> |
| Stake held in the JV          | 41,63%           | 41,63%           |

**Information relating to investments in JV:**

| <b>SHENYANG PRIMA LASER MACHINE CO LTD</b>          | <b>12/31/05</b> | <b>12/31/04</b> |
|-----------------------------------------------------|-----------------|-----------------|
| Non current assets                                  | 149             | 146             |
| Current assets                                      | 3.256           | 1.796           |
|                                                     | <u>3.405</u>    | <u>1.941</u>    |
| Non current liabilities                             | -               | -               |
| Current liabilities                                 | 2.362           | 1.642           |
|                                                     | <u>2.362</u>    | <u>1.642</u>    |
| <b>Net assets</b>                                   | <b>1.044</b>    | <b>300</b>      |
| Income                                              | 3.287           | 2.374           |
| Costs                                               | (3.137)         | (2.289)         |
| <b>Income before taxation</b>                       | <b>151</b>      | <b>86</b>       |
| Sharing in Joint Venture commitments                | 500             | 500             |
| Stake held in the JV                                | 50%             | 50%             |
|                                                     |                 |                 |
| <b>SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD</b> | <b>12/31/05</b> | <b>12/31/04</b> |
| Non current assets                                  | 580             | 564             |
| Current assets                                      | 8.043           | 5.726           |
|                                                     | <u>8.624</u>    | <u>6.290</u>    |
| Non current liabilities                             | -               | -               |
| Current liabilities                                 | 5.018           | 4.546           |
|                                                     | <u>5.018</u>    | <u>4.546</u>    |
| <b>Net assets</b>                                   | <b>3.605</b>    | <b>1.744</b>    |
| Income                                              | 7.115           | 3.842           |
| Costs                                               | (5.650)         | (3.490)         |
| <b>Income before taxation</b>                       | <b>1.465</b>    | <b>352</b>      |
| Stake held in the JV                                | 27,5%           | 27,5%           |

| <b>SNK PRIMA CO. LTD</b>      | <b>9/30/05</b>     | <b>9/30/04</b>      |
|-------------------------------|--------------------|---------------------|
| Non current assets            | 187                | 259                 |
| Current assets                | 153                | 154                 |
|                               | <u>340</u>         | <u>413</u>          |
| Non current liabilities       | -                  | -                   |
| Current liabilities           | -                  | -                   |
|                               | <u>-</u>           | <u>-</u>            |
| <b>Net assets</b>             | <b><u>340</u></b>  | <b><u>413</u></b>   |
| Income                        | -                  | -                   |
| Costs                         | (98)               | (103)               |
| <b>Income before taxation</b> | <b><u>(98)</u></b> | <b><u>(103)</u></b> |
| Stake held in the JV          | 50,0%              | 50,0%               |

The item *Sharing in Joint Venture commitments* refers to the credit line granted by Sanpaolo IMI in favour of PRIMA INDUSTRIE, useable by Shenyang PRIMA LASER TOOLS for the payment of the machines purchased from the Parent Company.

For more information on the performance of Group companies, refer to **Chapter 4**

#### **Note 9.4.**

##### **Equity investments valued according to the cost method**

The amount of 52 thousand Euro refers to the investment in Consorzio Sintesi, amounting to 10% of the Capital Stock, purchased during January 2005.

This Consortium, between private and public business with CNR as major shareholder carries out research & development and studies on industrialization technologies for the manufacturing sector.

This item carries the value of the investment in Rambaudi Industriale S.p.A., which is zero.

The investment was in fact completely written down because the company was placed into bankruptcy by the Court of Turin on 09/30-10/27/2003.

## Note 9.5.

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### Other Financial Assets, Movement

|                                |              |
|--------------------------------|--------------|
| <b>01.01.04</b>                | -            |
| Acquisition                    | 248          |
| Sales                          | -            |
| Foreign exchange differences   | -            |
| Revaluations                   | 1            |
| <b>01.01.05</b>                | <u>249</u>   |
| Acquisition                    | 14           |
| Sales                          | -            |
| Foreign exchange differences   | -            |
| Revaluations                   | 9            |
| <b>12.31.05</b>                | <u>272</u>   |
| <br>(Less non current portion) | <u>(272)</u> |
| Current portion                | <u>-</u>     |

#### Other financial fixed assets - details

##### Unlisted securities

|                                                |            |
|------------------------------------------------|------------|
| - Insurance policy                             | 14         |
| - Capitalization policy, with a single premium | 258        |
|                                                | <u>272</u> |

This relates to financial assets, valued at fair value with changes in value recorded in the Income Statement.

The amount is made up of a sum of 258 thousand euro in respect of a capitalization policy, with a single premium and a duration of 5 years.

This amount was re-valued at 12/31/05 by applying the annual minimum revaluation of 2.25% provided for in the contract.

## Note 9.6

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### Other receivables

The item amounts to 52 thousand euro compared with the 81 thousand euro at 12/31/04.

It captures the advances of employees' severance pay (TFR) paid by the Italian companies during the 1997-1998 financial years in terms of Act 140/97, plus accrued interest, net of the utilizations that occurred from 01/01/2000.

## Note 9.7

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|                                                    | <u>31/12/2005</u> | <u>31/12/2004</u> |
|----------------------------------------------------|-------------------|-------------------|
| Raw materials                                      | 15.423            | 13.125            |
| (Provision for writedown of raw materials)         | (2.554)           | (1.998)           |
| Semifinished products                              | 6.877             | 6.657             |
| (Provision for writedown of semifinished products) | 17.204            | 14.856            |
| Finished products                                  | (631)             | (1.059)           |
| (Provision for writedown of finished products)     |                   |                   |
| Advances for stock purchases                       | <u>36.319</u>     | <u>31.581</u>     |

The increase in raw materials compared to 12/31/2004 must be attributed to the increased requirements needed to meet the substantial number of orders held in backlog at 12/31/05.

The value of the finished products relates for more than 10 million Euro to machines delivered but not yet accepted by the end customer.

As per IAS 2, the movements of Provision for writedown of Raw materials and finished products are as below:

|                                      | <u>Raw materials</u> | <u>Finished products</u> |
|--------------------------------------|----------------------|--------------------------|
| Balance at 01/01/05                  | 1.998                | 1.059                    |
| Utilisation                          | (307)                | (628)                    |
| Provisions                           | 328                  | 112                      |
| Amounts assumed through acquisitions | 375                  |                          |
| Exchange differences                 | 160                  | 88                       |
| Balance 31/12/05                     | <u>2.554</u>         | <u>631</u>               |

**Note 9.8.**

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**Trade accounts receivable**

|                                     | <u>12/31/05</u> | <u>12/31/04</u> |
|-------------------------------------|-----------------|-----------------|
| Trade receivables                   | 39.857          | 39.585          |
| Allowance for doubtful accounts     | (2.224)         | (1.368)         |
| Net Trade receivables               | <u>37.633</u>   | <u>38.217</u>   |
|                                     |                 |                 |
| Amounts due by joint ventures       | 2.237           | 1.431           |
| Loans granted to correlated parties | -               | -               |
|                                     | <u>39.870</u>   | <u>39.648</u>   |

This item remains substantially unchanged with respect to the previous year, despite the marked increase in sales, and is due to the attention paid to the management of collections and the recovery of receivables carried out by all the companies of the Group.

With reference to the increase in allowance for the doubtful accounts, it is mainly due to a specific provision relative to a dealer who is facing a difficult period in fulfilling his financial obligations.

**Note 9.9**

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**Other receivables**

This relates to 1,866 thousand euro (it was 2,293 at 12/31/04) in respect of grants not yet disbursed in the light of research and development contracts already signed with the Ministry of Universities and Scientific Research and Technology.

The remaining sum of 1,183 thousand euro (it was 802 at 12/31/04) refers to advances paid to suppliers to meet orders for future deliveries, as well as advances on travel expenses paid to employees and accrued income and prepaid expenses.

## Note 9.10

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### Other tax assets

The amount of 1,357 thousand euro relates to a VAT credit of approximately 416 thousand euro, Group IRES advances of about 636 thousand euro, an IRAP credit of 18 thousand euro, IRPEG credits from prior financial years of 243 thousand euro and other minor items totalling 44 thousand euro.

As at 12/31/04 the item amounted to 2,044 thousand euro.

The decrease mainly relates to the decrease in the Parent Company's IRPEG credit, which was reduced by approximately 883 thousand euro as a result of set-offs made during the financial year.

## Note 9.11.

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### Tax assets for prepaid taxes

|                                  | Deferred tax assets - Base | Deferred tax assets |
|----------------------------------|----------------------------|---------------------|
| ADJUSTMENTS ON ASSETS            | 6.053                      | 2.052               |
| ADJUSTMENTS IAS 18               | 5.603                      | 1.987               |
| ELIMINATION OF INTERCO MARGINS   | 1.695                      | 607                 |
| OTHERS                           | 6.075                      | 2.300               |
| <b>TOTAL DEFERRED TAX ASSETS</b> |                            | <b>6.947</b>        |

The item "Others" is mainly due to Provisions for Risks and Contract charges, employees benefits and previous tax losses.

**Note 9.12.**

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**Derivative Financial Instruments**

|                            | 12/31/05 |             | 12/31/04 |             |
|----------------------------|----------|-------------|----------|-------------|
|                            | Assets   | Liabilities | Assets   | Liabilities |
| IRS                        | -        | (16)        | 28       | (16)        |
| Currency Option            | -        | -           | -        | (21)        |
| Currency forward sale      | -        | -           | 282      | (29)        |
| Currency forward purchases | 5        | -           | -        | -           |
| Total                      | 5        | (16)        | 310      | (66)        |
| (Less non current portion) |          |             |          |             |
| IRS                        | -        | (16)        | -        | (16)        |
| Currency Option            | -        | -           | -        | (21)        |
| Currency forward sale      | -        | -           | -        | -           |
| Currency forward purchases | -        | -           | -        | -           |
| Non current portion        | -        | (16)        | -        | (37)        |
| Current portion            | 5        | -           | 310      | (29)        |

The derivative financial instruments in existence at 12/31/05 refer to 2 Interest Rate Swap contracts entered into by the Parent Company to protect the interest rate of the existing medium/long-term loans and to 2 USD forward purchase transactions effected to protect the commercial balances due, which are payable in January and February 2006.

**Note 9.13**

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**Cash and cash equivalents**

This item amounts to 11,495 thousand Euro, compared to 6,448 at 12/31/04, and is made up of all the cash and cash equivalents on hand at the company and held in current banking accounts.

The increase compared to 12/31/04 is a consequence of the improved management of cash and of the cash-flow generated and is to be attributed to a series of receipts recorded during December 2005, including certain research grants.



**Note 9.14.****Loans****- Amounts due to banks and other loans**

|                                                     | <u>12/31/05</u> | <u>12/31/04</u> |
|-----------------------------------------------------|-----------------|-----------------|
| <b>Current</b>                                      |                 |                 |
| Bank overdrafts                                     | 1.036           | 3.967           |
| Amounts due for financial leases                    | 263             | 196             |
| Short-term portion of bank loans                    | 12.534          | 5.518           |
| Short-term portion of other loans                   | 85              | 311             |
|                                                     | <u>13.918</u>   | <u>9.992</u>    |
| <b>Non current</b>                                  |                 |                 |
| Long-term portion of Sabatini discount transactions | 896             | 1.672           |
| Amounts due for financial leases                    | 668             | 993             |
| Long-term portion of bank loans                     | 2.331           | 7.844           |
| Long-term portion of other loans                    | 1.676           | 1.859           |
|                                                     | <u>5.571</u>    | <u>12.368</u>   |
| <b>Total</b>                                        | <u>19.489</u>   | <u>22.360</u>   |

For further information, refer to **Chapter 3**, relative to the development of the Net Financial Position.

**- Amounts due to banks and other loans, movement**

|                                                     | Balance 12/31/2004 | Raised       | Repayments      | Reclassif.      | D exchange | Balance 12/31/2005 |
|-----------------------------------------------------|--------------------|--------------|-----------------|-----------------|------------|--------------------|
| <b>Current</b>                                      | 3.967              | -            | (3.526)         | -               | 595        | 1.036              |
| Bank overdrafts                                     | 196                | -            | (196)           | 263             | -          | 263                |
| Amounts due for financial leases                    | 5.518              | 1.276        | (6.794)         | 12.534          | -          | 12.534             |
| Short-term portion of bank loans                    | 311                | -            | (311)           | 85              | -          | 85                 |
| Short-term portion of other loans                   |                    |              |                 |                 |            |                    |
|                                                     | <u>9.992</u>       | <u>1.276</u> | <u>(10.827)</u> | <u>12.882</u>   | <u>595</u> | <u>13.918</u>      |
| <b>Non current</b>                                  |                    |              |                 |                 |            |                    |
| Long-term portion of Sabatini discount transactions | 1.672              | -            | (776)           | -               | -          | 896                |
| Amounts due for financial leases                    | 993                | -            | (62)            | (263)           | -          | 668                |
| Long-term portion of bank loans                     | 7.844              | 6.565        | -               | (12.533)        | 455        | 2.331              |
| Long-term portion of other loans                    | 1.859              | -            | (98)            | (85)            | -          | 1.676              |
|                                                     | <u>12.368</u>      | <u>6.565</u> | <u>(936)</u>    | <u>(12.881)</u> | <u>455</u> | <u>5.571</u>       |

The bank loans include loans in USD totalling 4,000,000

As per IAS 17, the minimum lease payments (including payments for interest and residual value) amount to 275 thousand euro within 1 year and 731 thousand euro between 1 and 5 years.

## Note 9.15

### Employee benefits

|                                 | 12/31/05     | 12/31/04     |
|---------------------------------|--------------|--------------|
| Employees' severance fund (TFR) | 4.382        | 4.014        |
| Fidelity premium                | 545          | 484          |
| <b>Total Employee benefits</b>  | <b>4.927</b> | <b>4.498</b> |

The Provision for Employees' Severance Pay (TFR) exclusively refers to the Italian companies and is shown net of the advances made to employees.

The "Fidelity premium" refers to the long service bonus provided for, for employees of PRIMA INDUSTRIE and PRIMA ELECTRONICS, paid on reaching 20, 30 and 35 years of service amounting to two month's gross wage.

The following movements occurred in the item during the financial year:

#### Employees' severance fund

|                                                                      | 12/31/05     | 12/31/04     |
|----------------------------------------------------------------------|--------------|--------------|
| <b>Opening liability</b>                                             | <b>4.014</b> | <b>3.916</b> |
| Employees' severance (TFR) paid during the period                    | (188)        | (507)        |
| Employees' severance (TFR) Transfer. to Cometa fund, Previndai, etc. | (116)        | (114)        |
| Employee benefit cost on current services                            | 493          | 472          |
| Financial expenses                                                   | 189          | 247          |
| <b>Total recorded in the Income Statement</b>                        | <b>682</b>   | <b>719</b>   |
| <b>Total Closing Liability</b>                                       | <b>4.392</b> | <b>4.014</b> |

#### Fidelity premium

|                                                   | 12/31/05     | 12/31/04     |
|---------------------------------------------------|--------------|--------------|
| <b>Opening liability</b>                          | <b>485</b>   | <b>414</b>   |
| Decreases                                         |              |              |
| Increases for acquisitions                        | 25           | -            |
| Provisions                                        | 35           | 71           |
| <b>Total recorded in the Income Statement</b>     | <b>35</b>    | <b>71</b>    |
| <b>Total Closing Liability - Fidelity premium</b> | <b>545</b>   | <b>485</b>   |
| <b>Total Employee benefits</b>                    | <b>4.937</b> | <b>4.499</b> |

The main assumptions used to estimate the closing liability relative to employees' benefits were the following:

| <b>Actuarial assumptions</b>                     | <b>12/31/05</b> | <b>12/31/04</b> |
|--------------------------------------------------|-----------------|-----------------|
| Technical annual discounting rate                | 4,0%            | 4,5%            |
| Annual rate of inflation                         | 2,0%            | 2,0%            |
| Annual rate of increase i.r.o. total salaries    | 3,5%            | 3,5%            |
| Annual rate of increase -employees severance pay | 3,0%            | 3,0%            |

The demographic suppositions used for the actuarial assessment include:

- the 2002 ISTAT mortality rates, subdivided by sex;
- the inability probabilities adopted in the INPS forms for the projections to 2010;
- the retirement age equal to the first of the pensionable requirements for the Obligatory General Insurance;
- the probabilities of leaving for causes other than death for an annual frequency equal to 5%-7.5% depending on the company;
- the probabilities of getting advances by the employees, equal to an annual value of 3%.

#### **Note 9.16.**

#### **Medium/long-term provisions for risks**

|                                           | <b>Provision for<br/>agents'<br/>customer</b> | <b>Provision for<br/>litigation risks</b> | <b>Other minor<br/>items</b> | <b>Restructuring<br/>provision</b> | <b>Total</b> |
|-------------------------------------------|-----------------------------------------------|-------------------------------------------|------------------------------|------------------------------------|--------------|
| <b>01.01.04</b>                           | 79                                            | 69                                        | 2                            | 40                                 | 190          |
| Amounts to the Income Statement           | -                                             | -                                         | -                            | -                                  | -            |
| - <i>Provisions</i>                       | 9                                             | -                                         | -                            | -                                  | 9            |
| - <i>Re-transfer of excess provisions</i> | -                                             | -                                         | -                            | -                                  | -            |
| Utilizations in the period                | -                                             | (69)                                      | -                            | (40)                               | (109)        |
| Exchange differences                      | -                                             | -                                         | -                            | -                                  | -            |
| <b>12.31.04</b>                           | 88                                            | -                                         | 2                            | -                                  | 90           |
| Amounts to the Income Statement           | -                                             | -                                         | -                            | -                                  | -            |
| - <i>Provisions</i>                       | 9                                             | -                                         | -                            | -                                  | 9            |
| - <i>Re-transfer of excess provisions</i> | -                                             | -                                         | -                            | -                                  | -            |
| Utilizations in the period                | (68)                                          | -                                         | (2)                          | -                                  | (70)         |
| Exchange differences                      | -                                             | -                                         | -                            | -                                  | -            |
| <b>12.31.05</b>                           | 29                                            | -                                         | -                            | -                                  | 29           |

## Short term provisions for risks

|                                    | Warranty<br>Provision | Provision for<br>exchange rate<br>fluctuations | Provision for<br>profit sharing | Restructuring<br>Provision | Others | Total   |
|------------------------------------|-----------------------|------------------------------------------------|---------------------------------|----------------------------|--------|---------|
| <b>01.01.04</b>                    | 1.876                 | 149                                            | -                               |                            |        | 2.025   |
| Amounts to the Income Statement    |                       |                                                | -                               |                            |        | -       |
| - Provisions                       | 1.969                 | -                                              | -                               | -                          | -      | 1.969   |
| - Re-transfer of excess provisions | -                     | -                                              | -                               |                            |        | -       |
| Utilizations in the period         | (1.876)               | (149)                                          | -                               |                            | -      | (2.025) |
| <b>12.31.04</b>                    | 1.969                 | -                                              | -                               | -                          | -      | 1.969   |
| Amounts to the Income Statement    |                       |                                                |                                 |                            |        | -       |
| - Provisions                       | 5.013                 |                                                | 72                              |                            | 234    | 5.319   |
| - Re-transfer of excess provisions | -                     |                                                | -                               |                            |        | -       |
| Utilizations in the period         | (3.744)               |                                                | (26)                            | (5)                        | (27)   | (3.802) |
| Exchange differences               | 140                   |                                                |                                 |                            |        | 140     |
| <b>12.31.05</b>                    | 3.378                 | -                                              | 46                              | (5)                        | 207    | 3.626   |

### Warranty Provision

This item relates to the provisions for work on Group products under technical warranty and is believed to be in line with the warranty costs that must be sustained.

### Provision for Profit-sharing

This item refers to the provisions raised during the year to meet bonus commitments towards the employees of PRIMA INDUSTRIE GmbH.

During the 2005 financial year the provision was utilized to meet contractually agreed payments to the aforesaid employees.

### Restructuring Provision

The amount of the provision arising from the purchase of the branch of the business (Matra), relates to sums set aside for a staff retrenchment plan.

At 12/31/2005 an amount of 5 thousand Euro was utilized out of the provision to meet a pay out of early-retirement incentives.

### Other Provisions for Risks

The provision made during the 2005 financial year relates to PRIMA INDUSTRIE GmbH's future commitments in relation to costs for the transfer of the company to its new premises in 2006, as well as to legal expenses, staff costs for leave not taken and overtime.

## Note 9.17

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### Trade and other payables

The increase in trade payables reflects the increased volume of production and the careful attention paid to working capital.

|                                      | <u>12/31/05</u> | <u>12/31/04</u> |
|--------------------------------------|-----------------|-----------------|
| Trade accounts payable               | 23.089          | 19.418          |
| Amounts due to correlated parties    |                 |                 |
| <b>Total trade payables</b>          | <b>23.089</b>   | <b>19.418</b>   |
| Advances from customers              | 18.371          | 17.718          |
| <b>Total advances from customers</b> | <b>18.371</b>   | <b>17.718</b>   |
| Social security and welfare payables | 1.091           | 947             |
| Amts due to employees                | 2.626           | 1.983           |
| Other short-term payables            | 258             | 220             |
| Accrued expenses & deferred income   | 694             | 608             |
| <b>Total Other payables</b>          | <b>4.669</b>    | <b>3.758</b>    |
|                                      | <u>46.129</u>   | <u>40.894</u>   |

The item Customer Advances includes both advances on orders relative to machines not yet delivered, as well as those generated by the application of IAS18 relative to machines that have already been delivered, but not yet accepted by the end customer and thus not able to be recorded amongst revenues.

Amounts due to employees refer to wages and salaries not yet paid and to other staff costs for leave not taken, variable part of production bonus and accrued incentives to managers and salesmen. The variation of the amount in respect of 12/31/04 is mainly due to the special amount connected to the renegotiation of the National Workers' Contract for the mechanical Industries, to the increase of incentives to managers and salesmen and to the staff increase during 2005 from 465 to 498 employees (including 12 employees of PRIMA INDUSTRIE GmbH).

## Note 9.18

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### Tax liabilities for deferred taxes

Items giving origin to tax liabilities for deferred taxes may be summarised as follows:

|                                       | <u>Deferred tax<br/>liabilities - Base</u> | <u>Deferred tax<br/>liabilities</u> |
|---------------------------------------|--------------------------------------------|-------------------------------------|
| Grants                                | 4.200                                      | 1.565                               |
| las 18                                | 1.714                                      | 609                                 |
| Others                                | 984                                        | 328                                 |
| <b>Total Prov. for deferred taxes</b> |                                            | <u><b>2.502</b></u>                 |

## Note 9.19

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### Tax liabilities for current taxes

The item amounts to 2,028 thousand euro (at 12/31/04 it was 1,871) and includes:

|                                                                      | <u>12/31/05</u>     | <u>12/31/04</u>     |
|----------------------------------------------------------------------|---------------------|---------------------|
| Amounts due for VAT in respect of the foreign companies and branches | 576                 | 590                 |
| Amounts due for group IRES                                           | 912                 | 622                 |
| Amounts due for IRAP                                                 | 65                  | 100                 |
| Amounts due for IRPEF withholdings                                   | 426                 | 502                 |
| Amounts due for substitute tax                                       | 35                  |                     |
| Other taxes and dues                                                 | 14                  | 57                  |
| <b>Total</b>                                                         | <u><b>2,028</b></u> | <u><b>1,871</b></u> |

## Note 9.20

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### Other operating revenue

|                                                         | <u>12/31/05</u>     | <u>12/31/04</u>     |
|---------------------------------------------------------|---------------------|---------------------|
| Grants on research projects                             | 1.449               | 1.457               |
| Non-operating profit                                    | 1.068               | 789                 |
| Negative Goodwill for acquisition of branch of business | 190                 |                     |
| Insurance refunds                                       | 94                  | 12                  |
| Others                                                  | 199                 | 221                 |
| <b>Total</b>                                            | <u><b>3.000</b></u> | <u><b>2.479</b></u> |

The research grants recorded in the 2005 Income Statement relate to the portions of forgivable loans for research and development, which accrued during the course of the 2005 financial year to PRIMA INDUSTRIE relative to the PAMELA project in an amount of 756 thousand euro, the RESALT project in a sum of 653 thousand euro and 40 thousands euro for other minor projects.

The non-operating profits mainly refer to adjustments to accruals made in the previous year.

The negative goodwill for the purchase of the branch of the business relates to the adjustments to the fair value of the assets and liabilities belonging to the Matra branch, as required by IFRS3

For an analysis of the net revenues from sales and services refer to **Chapter 3** and **Chapter 8, Segment Report**.

## Note 9.21

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### Increases for internal work

The capitalization arising from increases for internal work amounts to 63 thousand euro in 2005 and 157 thousand euro in 2004.

The amount recorded in the Income Statement is totally related to the costs incurred for the construction of productive equipment which was reflected in the tangible fixed assets.

## Note 9.22

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### Personnel expenses

|                                        | <u>12/31/05</u>      | <u>12/31/04</u>      |
|----------------------------------------|----------------------|----------------------|
| Salaries and wages                     | 18.860               | 17.449               |
| Social security contributions          | 5.776                | 5.277                |
| Employees' severance pay (TFR) accrual | 498                  | 472                  |
| Provisions to pension funds            | 144                  | 51                   |
| Fidelity premium                       | 35                   | 71                   |
| Other costs                            | 727                  | 499                  |
| <b>Total</b>                           | <u><b>26.040</b></u> | <u><b>23.819</b></u> |

The item Employees' severance pay (TFR), refers exclusively to the provisions raised by the Italian Companies.

The item *Provisions raised to pension funds* refers to the employee benefits of PRIMA INDUSTRIE GmbH, PRIMA INDUSTRIE UK Ltd. and PRIMA SCANDINAVIA AB.

The increase in the provision for 2005 compared to 2004 refers to the provision recorded by PRIMA GmbH (101 thousand Euro) which recommenced operations on July 1, 2005.

## Note 9. 23

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|                                         | <u>12/31/05</u>     | <u>12/31/04</u>     |
|-----------------------------------------|---------------------|---------------------|
| Depreciation tangible fixed assets      | 1.072               | 950                 |
| Amortisation of intangible fixed assets | 136                 | 263                 |
| <b>Total</b>                            | <u><b>1.208</b></u> | <u><b>1.213</b></u> |

The depreciation of the tangible fixed assets was calculated on the basis of the financial-technical life of the assets.

Amortization of intangible fixed assets is calculated on the basis of the future useful life of such assets.



## Note 9.24

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### Other operating costs

|                                                 | 12/31/05      | 12/31/04      |
|-------------------------------------------------|---------------|---------------|
| External processing                             | 6.060         | 5.614         |
| Travel expenses                                 | 3.124         | 2.543         |
| Freight and duties                              | 2.029         | 1.441         |
| Commissions                                     | 1.757         | 1.622         |
| Consultants and temporary wor                   | 2.829         | 2.629         |
| Advertising                                     | 804           | 704           |
| External maintenance                            | 740           | 822           |
| Utilities, postage & telecommunication          | 1.026         | 981           |
| Insurance                                       | 468           | 425           |
| Directors' and statutory auditors' remuneration | 584           | 516           |
| Other service costs                             | 1.114         | 1.503         |
| Rent                                            | 1.111         | 980           |
| Hiring and other leases                         | 545           | 650           |
| Warranty provisions                             | 1.322         | 122           |
| Allowance for doubtful accounts                 | 861           | 139           |
| Other provisions                                | 69            | 9             |
| Non-operating losses                            | 594           | 367           |
| Other operating costs                           | 225           | 618           |
| <b>Total</b>                                    | <b>25.263</b> | <b>21.685</b> |

The increase in operating costs compared to 12/31/2004 totalling 3,578 thousand euro is mainly tied to the increased volume of business in 2005.

The provisions raised to the *Allowance for doubtful accounts* was made to bring the provision into line with the amount of overdue accounts at the end of the financial year, and takes into account a specific provision relative to a dealer facing a difficult period in fulfilling payments.

The *other service costs* include costs for labourers, cleaning and surveillance expenses and agency costs.

The *other operating costs* include the indirect taxes, corporate expenses, association contributions and subscription costs.

The item *Directors and Statutory Auditors' Remuneration* relates to the sum of 451 thousand euro for emoluments to members of the Board of Directors and to the Statutory Auditors of the Parent Company (in terms of section 38 of Decree-Law 127/91). For further information refer to the appropriate tables, in terms of section 78 of CONSOB Issuer's Regulations, included in the **Notes to the Financial Statements of the Parent Company**.

## Note 9.25

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### Financial Income and Expenses

|                                           | <u>12/31/05</u> | <u>12/31/04</u> |
|-------------------------------------------|-----------------|-----------------|
| <b>Expenses:</b>                          |                 |                 |
| Interest on short-term bank borrowings    | (316)           | (253)           |
| Interest on ML bank borrowings            | (526)           | (380)           |
| Interest paid & trade discounts allowed   | (313)           | (421)           |
| Interest paid on leasing contracts        | (26)            | (73)            |
| Interest cost on employees sev. pay (TFR) | (195)           | (175)           |
| Writedown of derivative instruments       | (9)             | (86)            |
| Others                                    | (254)           | (359)           |
| <b>Total financial expenses</b>           | <u>(1.639)</u>  | <u>(1.747)</u>  |
| <b>Financial income</b>                   |                 |                 |
| Bank interest received                    | 70              | 17              |
| Interest & trade discounts received       | 330             | 433             |
| Interest received on Sabatini             | -               | -               |
| Interest earned on securities             | 9               | 2               |
| Revenue on derivative instruments         | 37              | 15              |
| Others                                    | 30              | 25              |
| <b>Total financial income</b>             | <u>476</u>      | <u>492</u>      |
| Negative foreign exchange differences     | (801)           | (1.768)         |
| Positive exchange differences             | 824             | 1.628           |
| <b>Total exchange differences</b>         | <u>23</u>       | <u>(140)</u>    |
| <b>Net financial expenses</b>             | <u>(1.140)</u>  | <u>(1.395)</u>  |

## Note 9.26

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### Net result of associated companies and Joint Ventures

|                                                                     | <u>12/31/05</u> | <u>12/31/04</u> |
|---------------------------------------------------------------------|-----------------|-----------------|
| MLTA                                                                | (41)            | -               |
| Shenyang Prima Laser Machine Co LTD                                 | (75)            | (39)            |
| Shanghai Unity Prima Laser Machinery Co. LTD                        | 502             | -               |
| SNK Prima Co. LTD                                                   | (49)            | (125)           |
| <b>Income (Loss) from associated companies &amp; joint ventures</b> | <u>337</u>      | <u>(164)</u>    |

The item in question shows the result of the valuation using the equity method in respect of the associated companies and joint ventures.

For further information on the performance of these companies, refer to **Chapter 4**.

## Note 9.27

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### Current and deferred taxes

|                                                            | <u>2005</u>           | <u>2004</u>           |
|------------------------------------------------------------|-----------------------|-----------------------|
| CURRENT:                                                   | (2.480)               | (2.199)               |
| IRES                                                       | (850)                 |                       |
| IRAP                                                       | (1.554)               |                       |
| FOREIGN                                                    | (76)                  |                       |
| PREPAID                                                    | 1.253                 | 938                   |
| DEFERRED                                                   | (853)                 | (1.127)               |
| ARISING FROM TAX CONSOLIDATION                             | 110                   |                       |
| SUBSTITUTE TAX ON PROPERTY REVALUATION (PRIMA ELECTRONICS) | (35)                  |                       |
| <b>Total</b>                                               | <u><b>(2.005)</b></u> | <u><b>(2.388)</b></u> |

As far as the substitute tax on the revaluation of PRIMA ELECTRONICS property in Moncalieri, according to the Italian law, the international accounting principles charge this amount to income statement.

## Reconciliation between ordinary and actual rate

|                                                                    | taxable income | income taxes   | rate %         |
|--------------------------------------------------------------------|----------------|----------------|----------------|
| <b>INCOME (LOSS) BEFORE TAXES</b>                                  | <b>7.113</b>   | <b>2.569</b>   | <b>36,11</b>   |
| PERMANENT DIFFERENCES (INCREASE)                                   | 794            | 261            |                |
| PERMANENT DIFFERENCES (DECREASE)                                   | (147)          | (49)           |                |
| TEMPORARY DIFFERENCES                                              | (1.933)        | (645)          |                |
| USE OF NET OPERATING LOSSES CARRY FORWARD                          | (3.428)        | (1.124)        |                |
| OTHERS                                                             | (30)           | (10)           |                |
| INCOME TAX BASE                                                    | 2.369          |                |                |
| DEFERRED TAX LIABILITIES RELEASE                                   |                | (350)          |                |
| DEFERRED TAX ASSETS UTILISATION                                    |                | 988            |                |
| Reversal 5% on dividends - participation domestic tax              |                | (10)           |                |
| <b>TOTAL INCOME TAXES</b>                                          |                | <b>1.630</b>   | <b>22,92</b>   |
| IRAP (ONLY ON STATUTORY FINANCIAL STATEMENTS OF ITALIAN COMPANIES) | -              | -              | -              |
| VALUE OF PRODUCTION                                                | 93.748         |                |                |
| COSTS OF PRODUCTION (EXCLUDING LABOUR COST)                        | (70.464)       |                |                |
| OTHER CHANGES                                                      | (3.294)        |                |                |
| TAXABLE BASE - IRAP                                                | 19.990         |                |                |
| <b>TOTAL IRAP</b>                                                  |                | <b>850</b>     | <b>11,94</b>   |
| <b>DEFERRED TAX ASSETS</b>                                         |                | <b>(1.253)</b> | <b>(17,62)</b> |
| <b>DEFERRED TAX LIABILITIES</b>                                    |                | <b>853</b>     | <b>11,99</b>   |
| <b>GAINS DUE TO CONSOLIDATED TAX CALCULATION</b>                   |                | <b>(110)</b>   | <b>(1,55)</b>  |
| <b>TAX ON BUILDING REVALUATION</b>                                 |                | <b>35</b>      | <b>0,49</b>    |
| <b>TOTAL TAXATION</b>                                              |                | <b>2.005</b>   | <b>28,19</b>   |

## Note 9.28

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### Earnings per share

Refer to **Chapter 3, Business trend** for further information on the matter.

## Note 9.29

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### Contractual commitments

The contractual commitments at the date of closure of the Financial Statements are as follows:  
lease instalments:

|                  | <u>12/31/05</u>     |
|------------------|---------------------|
| Chicopee factory | 8.430               |
| Champlin factory | 444                 |
| <b>Total</b>     | <u><b>8.874</b></u> |
|                  | <u>12/31/05</u>     |
| Within 1 year    | 754                 |
| Beyond 1 year    | 8.120               |
| <b>Total</b>     | <u><b>8.874</b></u> |

The lease agreement entered into with Oxford Investment LLC relates to the factory situated at:  
*East Main Street, Chicopee River Business Park, Chicopee, Massachusetts*  
The lease is for fifteen years and expires in 2018.  
The lease instalments for future years are as follows:

#### Chicopee factory

| Year        | Amount |                   |
|-------------|--------|-------------------|
| 2006        | 565    | Thousands of US\$ |
| 2007        | 609    | Thousands of US\$ |
| 2008        | 594    | Thousands of US\$ |
| beyond 2009 | 6.662  | Thousands of US\$ |

The lease agreement with OIRE Minnesota LLC relates to the factory situated at:  
*8600 109th Avenue North, Champlin Minnesota*  
The lease is for fifteen years and expires in 2008.  
The lease instalments for future years are as follows:

#### Champlin factory

| Year | Amount |                   |
|------|--------|-------------------|
| 2006 | 189    | Thousands of US\$ |
| 2007 | 191    | Thousands of US\$ |
| 2008 | 64     | Thousands of US\$ |

On behalf of the Board of Directors

Chairman



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Gianfranco Carbonato

## 10. TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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### **Application of IFRS 1 “First-time adoption of the *International Financial Reporting Standards*”**

As per European Regulation n. 1606 of 7/19/2002, and in accordance with Art. 81 of CONSOB Regulation 11971, as modified by CONSOB Decision n. 14990 of 4/14/2005, PRIMA INDUSTRIE Group prepared the Half Year Financial Statement at 6/30/2005 according to International Accounting Principles approved by European Commission (hereinafter IAS/IFRS or IFRS).

The first Annual Financial Statements prepared in accordance with IFRS are the Financial Statements at December 31, 2005.

The Group prepared the opening Balance Sheet at January 1, 2004. This date is generally recognized as the "transition date". The Group adopted the IFRS on January 1, 2005.

### **Optional exemptions for the retrospective application of IFRS**

The Group's actions in regard to the optional exemptions is described hereinbelow. More detailed information is contained in the paragraphs below. I

#### *(a) Business combinations*

The Group decided to take advantage of the exemption relating to the retrospective application of IFRS3 for business combinations and the acquisition of equity investments in associated and joint control companies which took place prior to January 1, 2004. Consequently a new calculation of the business combinations prior to the transition date was not effected.

#### *(b) “Fair value” or redetermination of the value as a substitute of the cost*

The Group decided to take advantage of the optional exemption provided for by IFRS 1 (application of the estimated cost). For certain categories of real estate the re-valued cost determined on the basis of expert reports drawn up by independent expert valuers was used.

#### *(c) Employee benefits*

The Group elected to avail itself of the corridor approach to record defined benefit plans. Accordingly the actuarial profit/loss, apart from the exemption granted by IFRS1, was reflected entirely on the date of the transition with stockholders' equity as the contra-entry. On the other hand, the Group adopts the corridor method for the actuarial profits and losses realized after the transition date.

#### *(d) Accumulated conversion differences*

The Group decided to take advantage of the exemption relating to the retrospective application of IAS21 and accordingly the profits (loss) arising from the conversion of the financial statements of foreign subsidiaries were cleared with a contra-entry being made to the "Profits carried forward" reserve. The reserve which was cleared originated in the face of the conversion of the net assets belonging to the subsidiary companies, expressed in local currency, into euro (functional currency).

(e) *Compound financial instruments*

The Group has not issued any compound financial instruments and consequently this exemption is not applicable.

(f) *Assets and liabilities of subsidiaries, associated companies and Joint Ventures*

This exemption is not applicable as it is used on a level relating to the individual associated subsidiary companies and joint ventures which adopt the IFRS in a period subsequent to that of the parent company.

(g) *Adaptation of the comparative information relating to the financial assets and liabilities*

The Group decided to apply the IAS32 and 39 in advance from the transition date. The exemption is therefore not applicable.

(h) *Indication of previously disclosed financial instruments*

The Group has decided to apply the IAS32 and 39 in advance from the transition date. The exemption was applied from this date, by classifying at the transition date various securities in the category " financial assets held for sale" and " financial assets at fair value with changes in fair value recorded in the Income Statement".

(i) *Share-based payments to employees*

As regards payments to employees based on the shares, the Group took advantage of the exemption provided for by IFRS 2 which, in the event of IFRS transition on 1/1/2004, provides for the applicability of the principle to the options issued after November 7, 2002 and not yet exercisable as at January 1, 2005. As the stock option plan launched by the Group in 1999 expired in 2004, there are no plans in existence to which IFRS 2 is applicable.

(k) *Insurance contracts*

The Group does not issue insurance contracts and accordingly this exemption is not applicable.

(l) *Changes in the liabilities recorded for decommissioning, restoration and similar liabilities included in the costs of real estate, plant and machinery*

The Group does not have liabilities for decommissioning, restoration and similar liabilities and consequently this exemption is not applicable.

(m) *"Fair value" measurement of financial assets and liabilities when they are first recorded in the Financial Statements*

The Group did not adopt the exemption, introduced by the revised version of IAS 39, which relates to the valuation of the financial assets of the category at fair value with fair value changes recorded in the Income Statement", in the event where no reference market exists. The exemption is not applicable.



## **Compulsory exceptions for the retrospective application of the IFRS.**

### *(a) Reversal of the financial assets and liabilities*

The financial assets and liabilities which do not fulfill the IAS 39 requirements in order to be reversed from the Financial Statements, even if cancelled prior to the transition date, must not be re-entered in the Financial Statements.

### *(b) Accounting for hedging transactions*

The Group is obliged to adopt the recording of hedging transactions by a prospectual way.

### *(c) Estimates*

The estimates made by the Group at the transition date in terms of the IFRS must be consistent with the estimates made on the same date in accordance with the prior accounting principles (after the necessary adjustments to reflect any differences in the accounting principles) unless there is objective proof that said estimates are incorrect.

### *(d) Non current assets held for sale and disposal of operating assets*

The Group adopts IFRS 5 by a prospectual way from January 1, 2005. Any non-current asset held for sale or operating asset disposed of are accounted for in accordance with IFRS 5 only commencing from January 1, 2005. The Group does not in any event possess non-current assets held for sale nor operating assets disposed of in the period presented. No adjustment is therefore required.

## **Audit of the reconciliations**

As regards the identification of the auditors to be appointed with the task of carrying out a complete audit of the IFRS reconciliation schedules, CONSOB (taking into account the delicate nature linked to the first application in Italy of the IFRS) explicitly urged the listed company that the audit procedures be carried out by the firm performing the audit of the Consolidated Financial Statements as at December 31, 2004. Accordingly PricewaterhouseCoopers S.p.A. has been entrusted with the task of performing a complete financial audit of the Group's consolidated stockholders' equity as at January 1, 2004, at June 30, 2004 and at December 31, 2004 as well as that of the Group's consolidated result for the first semester in 2004 and of the financial period closed as at December 31, 2004 accompanied by the related explanatory notes. The result of the work performed by PricewaterhouseCoopers S.p.A. is set out in the half year Financial Statements at 6/30/2005.

## Reconciliation between IFRS and the Italian Accounting Principles

The reconciliations contained in enclosed tables, highlight the effects of the transition to IFRS.

**TAB A:** reconciliation of stockholders' equity at January 1, 2004 and December 31, 2004

**TAB B:** reconciliation of Stockholders' equity (in the assets and liabilities format) at January 1, 2004

**TAB C:** reconciliation of Stockholders' equity (in the assets and liabilities format) at December 31, 2004

**TAB D:** reconciliation of the result for the 12 months - 2004

The comments to the adjustments contained in the tables are set out in the paragraphs below.

**TAB A Reconciliation of group stockholders' equity**
*(Values expressed in thousands of Euro)*

|                                                    | <b>Notes</b> | <b>01/01/04</b> | <b>12/31/2004</b> |
|----------------------------------------------------|--------------|-----------------|-------------------|
| <b>Stockholders' equity per statutory accounts</b> |              | <b>27.729</b>   | <b>28.741</b>     |
| Tangible fixed assets                              | a            | 218             | 179               |
| Intangible fixed assets                            | b            | (310)           | (7)               |
| Tax assets - prepaid taxes                         | c            | 2.207           | 2.596             |
| Derivative financial instruments                   | d            | 201             | 244               |
| Inventories                                        | e            | 8.555           | 10.432            |
| Other receivables                                  | f            | (349)           | (477)             |
| Amounts due to banks and i.r.o loans               | h            | (45)            | (45)              |
| Tax liabilities - deferred and current taxes       | i            | (737)           | (1.024)           |
| Post-employment benefits                           | j            | (335)           | (298)             |
| Advances                                           | l            | (14.057)        | (16.471)          |
| Provisions for risks and charges                   | k            | 1.595           | 1.810             |
| <b>Total Adjustments</b>                           |              | <b>(3.057)</b>  | <b>(3.061)</b>    |
| <b>Stockholders' equity for IFRS</b>               |              | <b>24.672</b>   | <b>25.680</b>     |

**TAB B Reconciliation of Group stockholders' equity at January 1, 2004**

(Values expressed in thousands of euro)

|                                                                     | Notes | Italian S.E<br>1/1/2004 | IFRS<br>Reclassification | IFRS<br>Adjustments | IFRS<br>1/1/2004 |
|---------------------------------------------------------------------|-------|-------------------------|--------------------------|---------------------|------------------|
| Tangible fixed assets                                               | a     | 5.054                   | 928                      | 218                 | 6.200            |
| Intangible fixed assets                                             | b     | 3.845                   | (928)                    | (310)               | 2.607            |
| Investments valued using the equity method                          |       | 1.133                   | -                        | -                   | 1.133            |
| Other financial fixed assets                                        |       | 112                     | -                        | -                   | 112              |
| Other receivables                                                   |       | 137                     | -                        | -                   | 137              |
| Derivative financial instruments                                    | d     | -                       | -                        | 166                 | 166              |
| <b>TOTAL NON CURRENT ASSETS</b>                                     |       | <b>10.281</b>           | <b>-</b>                 | <b>74</b>           | <b>10.355</b>    |
| Inventories                                                         | e     | 21.565                  | -                        | 8.555               | 30.120           |
| Trade receivables                                                   |       | 40.503                  | -                        | -                   | 40.503           |
| Other receivables                                                   | f     | 2.244                   | -                        | (349)               | 1.895            |
| Other tax assets                                                    |       | 2.245                   | -                        | -                   | 2.245            |
| Tax assets - prepaid taxes                                          | c     | 5.294                   | -                        | 2.207               | 7.501            |
| Derivative financial instruments                                    | d     | -                       | -                        | 35                  | 35               |
| Cash and cash equivalents                                           |       | 3.607                   | -                        | -                   | 3.607            |
| <b>TOTAL CURRENT ASSETS</b>                                         |       | <b>75.458</b>           | <b>-</b>                 | <b>10.448</b>       | <b>85.906</b>    |
| <b>Non current assets held for sale</b>                             |       | <b>-</b>                | <b>-</b>                 | <b>-</b>            | <b>-</b>         |
| <b>TOTAL ASSETS</b>                                                 |       | <b>85.739</b>           | <b>-</b>                 | <b>10.522</b>       | <b>96.261</b>    |
| Capital stock                                                       | g     | 11.500                  | -                        | -                   | 11.500           |
| Treasury stock reserve                                              | g     | 324                     | -                        | (648)               | (324)            |
| Other reserves                                                      | g     | 17.945                  | -                        | 1.129               | 19.074           |
| Conversion reserve                                                  | g     | (672)                   | -                        | 672                 | -                |
| Profits (losses) carried forward                                    | g     | 1.584                   | -                        | (7.162)             | (5.578)          |
| Profit (loss) for the year                                          |       | (2.952)                 | -                        | 2.952               | -                |
| <i>Total Group stockholders' equity</i>                             |       | <i>27.729</i>           | <i>-</i>                 | <i>(3.057)</i>      | <i>24.672</i>    |
| Minority interests                                                  |       | -                       | -                        | -                   | -                |
| <b>Total stockholders' equity</b>                                   |       | <b>27.729</b>           | <b>-</b>                 | <b>(3.057)</b>      | <b>24.672</b>    |
| Loans                                                               | h     | 15.391                  | -                        | 16                  | 15.407           |
| Tax liabilities - deferred taxes                                    | i     | 1.217                   | -                        | 737                 | 1.954            |
| Post-employment benefits                                            | j     | 4.184                   | (168)                    | 335                 | 4.331            |
| Provisions for risks and charges                                    | k     | 339                     | -                        | (150)               | 189              |
| Derivative financial instruments                                    |       | -                       | -                        | -                   | -                |
| <b>TOTAL NON CURRENT LIABILITIES</b>                                |       | <b>21.111</b>           | <b>(168)</b>             | <b>938</b>          | <b>21.881</b>    |
| Trade payables                                                      |       | 17.566                  | -                        | -                   | 17.566           |
| Advances                                                            | l     | 1.441                   | -                        | 14.057              | 15.498           |
| Other payables                                                      | m     | 2.925                   | 168                      | 0                   | 3.093            |
| Amounts due to banks and i.r.o loans                                | h     | 10.539                  | -                        | 29                  | 10.568           |
| Tax liabilities - current taxes                                     |       | 958                     | -                        | -                   | 958              |
| Provision for risks and charges                                     | k     | 3.470                   | -                        | (1.445)             | 2.025            |
| Derivative financial instruments                                    |       | -                       | -                        | -                   | -                |
| <b>TOTAL CURRENT LIABILITIES</b>                                    |       | <b>36.899</b>           | <b>168</b>               | <b>12.641</b>       | <b>49.708</b>    |
| <b>Liabilities attributable to non current assets held for sale</b> |       | <b>-</b>                | <b>-</b>                 | <b>-</b>            | <b>-</b>         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                   |       | <b>85.739</b>           | <b>-</b>                 | <b>10.522</b>       | <b>96.261</b>    |

**TAB C Reconciliation of Group stockholders' equity at December 31, 2004**

(Values expressed in thousands of Euro)

|                                                                     | Notes | Italian S.E<br>12/31/2004 | IFRS<br>Reclassification | IFRS<br>Adjustments | IFRS<br>12/31/2004 |
|---------------------------------------------------------------------|-------|---------------------------|--------------------------|---------------------|--------------------|
| Tangible fixed assets                                               | a     | 5.044                     | 762                      | 179                 | 5.985              |
| Intangible fixed assets                                             | b     | 3.257                     | (762)                    | (7)                 | 2.488              |
| Investments valued using the equity method                          |       | 989                       | -                        | -                   | 989                |
| Financial fixed assets                                              |       | 250                       | -                        | -                   | 250                |
| Other financial fixed assets                                        |       | 81                        | -                        | -                   | 81                 |
| Derivative financial instruments                                    |       | -                         | -                        | -                   | -                  |
| <b>TOTAL NON CURRENT ASSETS</b>                                     |       | <b>9.601</b>              | <b>-</b>                 | <b>172</b>          | <b>9.773</b>       |
| Inventories                                                         | e     | 21.148                    | -                        | 10.432              | 31.580             |
| Trade receivables                                                   |       | 39.646                    | -                        | -                   | 39.646             |
| Other receivables                                                   | f     | 3.572                     | -                        | (477)               | 3.095              |
| Other tax assets                                                    |       | 2.043                     | -                        | -                   | 2.043              |
| Tax assets - prepaid taxes                                          | c     | 4.475                     | -                        | 2.596               | 7.071              |
| Derivative financial instruments                                    | d     | -                         | -                        | 310                 | 310                |
| Cash and cash equivalents                                           |       | 6.448                     | -                        | -                   | 6.448              |
| <b>TOTAL CURRENT ASSETS</b>                                         |       | <b>77.332</b>             | <b>-</b>                 | <b>12.861</b>       | <b>90.193</b>      |
| <b>Non current assets held for sale</b>                             |       | <b>-</b>                  | <b>-</b>                 | <b>-</b>            | <b>-</b>           |
| <b>TOTAL ASSETS</b>                                                 |       | <b>86.933</b>             | <b>-</b>                 | <b>13.033</b>       | <b>99.966</b>      |
| Capital stock                                                       | g     | 11.500                    | -                        | -                   | 11.500             |
| Treasury stock reserve                                              | g     | 171                       | -                        | (342)               | (171)              |
| Other reserves                                                      | g     | 15.284                    | -                        | 1.130               | 16.394             |
| Reserve from exchange difference                                    | g     | (909)                     | -                        | 735                 | (174)              |
| Profits (losses) carried forward                                    | g     | 1.488                     | -                        | (4.379)             | (2.893)            |
| Profit (loss) for the year                                          | g     | 1.249                     | -                        | (205)               | 1.044              |
| <i>Total Group stockholders' equity</i>                             |       | <i>28.741</i>             | <i>-</i>                 | <i>(3.061)</i>      | <i>25.680</i>      |
| Minority interests                                                  |       | -                         | -                        | -                   | -                  |
| <b>Total stockholders' equity</b>                                   |       | <b>28.741</b>             | <b>-</b>                 | <b>(3.061)</b>      | <b>25.680</b>      |
| Loans                                                               | h     | 12.271                    | -                        | 97                  | 12.368             |
| Tax liabilities - deferred taxes                                    | i     | 1.515                     | -                        | 1.024               | 2.539              |
| Post-employment benefits                                            | j     | 4.200                     | -                        | 298                 | 4.498              |
| Provision for risks and charges                                     | k     | 199                       | -                        | (108)               | 91                 |
| Derivative financial instruments                                    | d     | -                         | -                        | 37                  | 37                 |
| <b>TOTAL NON CURRENT LIABILITIES</b>                                |       | <b>18.185</b>             | <b>-</b>                 | <b>1.348</b>        | <b>19.533</b>      |
| Trade payables                                                      |       | 19.417                    | -                        | -                   | 19.417             |
| Advances                                                            | l     | 1.246                     | -                        | 16.471              | 17.717             |
| Other payables                                                      |       | 3.757                     | -                        | -                   | 3.757              |
| Amounts due to banks and i.r.o. loans                               | h     | 10.044                    | -                        | (52)                | 9.992              |
| Tax liabilities - current taxes                                     |       | 1.871                     | -                        | -                   | 1.871              |
| Provision for risks and charges                                     | k     | 3.672                     | -                        | (1.702)             | 1.970              |
| Derivative financial instruments                                    | d     | -                         | -                        | 29                  | 29                 |
| <b>TOTAL CURRENT LIABILITIES</b>                                    |       | <b>40.007</b>             | <b>-</b>                 | <b>14.746</b>       | <b>54.753</b>      |
| <b>Liabilities attributable to non current assets held for sale</b> |       | <b>-</b>                  | <b>-</b>                 | <b>-</b>            | <b>-</b>           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                   |       | <b>86.933</b>             | <b>-</b>                 | <b>13.033</b>       | <b>99.966</b>      |

**TAB D Reconciliation of the Consolidated Income Statement at December 31, 2004**
*(Values expressed in thousands of Euro)*

|                                                                       | Notes | Italian<br>S.E<br>12/31/04 | IFRS<br>Adjustments<br>(Reclassific.) | IFRS<br>12/312004 |
|-----------------------------------------------------------------------|-------|----------------------------|---------------------------------------|-------------------|
| Net revenues from sales and services                                  | a     | 100.044                    | (2.938)                               | 97.106            |
| Changes in inventories of semifinished & finished products & raw mat. | b     | 749                        | 2.281                                 | 3.030             |
| Increases in fixed assets for internal work                           |       | 157                        | -                                     | 157               |
| Other operating income                                                | c     | 2.553                      | (74)                                  | 2.479             |
| Use of raw materials, consumables, supplies and goods                 |       | (50.979)                   | (85)                                  | (51.064)          |
| Personnel costs                                                       | d     | (24.032)                   | 213                                   | (23.819)          |
| Amortization, Depreciation                                            | e     | (1.694)                    | 481                                   | (1.213)           |
| Impairment and Writedowns                                             |       | -                          | -                                     | -                 |
| Other operating costs                                                 | f     | (21.772)                   | 87                                    | (21.685)          |
| <b>OPERATING INCOME (LOSS)</b>                                        |       | <b>5.026</b>               | <b>(35)</b>                           | <b>4.991</b>      |
| Financial income                                                      |       | 492                        | -                                     | 492               |
| Financial expenses                                                    | g     | (1.425)                    | (323)                                 | (1.748)           |
| Income (Loss) from transactions in foreign exchange                   |       | (140)                      | -                                     | (140)             |
| Income (Loss) from associated companies & joint ventures              |       | (164)                      | -                                     | (164)             |
| Income (Loss) from financial assets available for sale                |       | -                          | -                                     | -                 |
| <b>INCOME (LOSS) BEFORE TAX</b>                                       |       | <b>3.789</b>               | <b>(358)</b>                          | <b>3.431</b>      |
| Current and deferred taxes                                            | h     | (2.540)                    | 153                                   | (2.387)           |
| <b>NET PROFIT (LOSS)</b>                                              |       | <b>1.249</b>               | <b>(205)</b>                          | <b>1.044</b>      |
| <b>Income (Loss) from assets held for sale</b>                        |       | -                          | -                                     | -                 |
| <b>NET PROFIT</b>                                                     |       | <b>1.249</b>               | <b>(205)</b>                          | <b>1.044</b>      |
| - due to parent company stockholders'                                 |       | 1.249                      | (205)                                 | 1.044             |
| - due to the minority interest                                        |       | -                          | -                                     | -                 |

## Comments on the IFRS adjustments made to the Balance Sheet.

### a. *Tangible fixed assets*

|                                             | 1 January 2004 | 31 December 2004 |
|---------------------------------------------|----------------|------------------|
| Optional exemption – IFRS 1p16-19           | 250            | 282              |
| Leased electronic office equipment          | (32)           | (103)            |
| Reclassification of intangible fixed assets | 928            | 762              |
| <b>Total</b>                                | <b>1,146</b>   | <b>941</b>       |

### **Optional exemption - IFRS 1p16-19**

The Group applied the optional exemption provided for in IFRS 1p16-19 ("Fair value or re-determination of the value as a substitute of the cost") in order to separate the land value from the following real estate complexes:

- Collegno (PRIMA INDUSTRIE S.p.A. - through a financial leasing agreement IAS 17p10);
- Moncalieri (owned by PRIMA ELECTRONICS S.p.A.);
- Coventry (owned by PRIMA INDUSTRIE S.p.A. leased to the subsidiary Prima UK).

In the Financial Statements drawn up prior to the transition to IFRS, the land "pertaining" to the building was entered in the category "land and buildings" and was subject to amortization.

The "fair value" of the land and buildings as at the transition date corresponds to the value attributed to them by an independent expert who was charged to draw up valuation reports.

The tax effect (liability for deferred taxes) was calculated on the difference between the fiscally recoverable value of the land and the book value, in accordance with SIC 21 (Income taxes-recovery of the revalued non-depreciable assets).

### **Leased electronic office equipment**

This relates to the effects stemming from an adjustment relating to the recording of certain leasing contracts in respect of electronic office equipment (contracts to be recorded in terms of IAS 17p20). The relative tax effect, deriving from the difference between the value per the Financial Statements and the fiscally recoverable amount was calculated and provided for on the basis of this adjustment (the debit for deferred taxes) - in accordance with the provisions of IAS 12.



## Reclassification of Intangible fixed assets

This relates to a reclassification of Prima North America Inc.'s "hardware" and "lease hold improvements" as at the transition date, recorded amongst the intangible fixed assets in the pre-transition Financial Statements. For the hardware in question provision was also made to adjust the depreciation period from 3 to 7 years, a period which better represents its economic useful life.

### *b. Intangible fixed assets*

|                                           | 1 January 2004 | 31 December 2004 |
|-------------------------------------------|----------------|------------------|
| Elimination of plurienial expenses        | (310)          | (7)              |
| Reclassification as tangible fixed assets | (928)          | (762)            |
| <b>Total</b>                              | <b>(1,238)</b> | <b>(769)</b>     |

## Elimination of plurienial expenses

This deals with the elimination of pluriennial expenses relating to Prima Industrie S.p.A., Prima Electronics S.p.A. and Prima North America Inc. which do not have the requirements requested by IAS 38p10 in order to be capitalized. The expenses reversed mainly include various building works on buildings that are owned or rented, plant and expansion costs, maintenance charges and trademark protection. The relative tax effect, derived from the difference between the value per the Financial Statements and the fiscally recoverable amount is calculated and provided for on the basis of this adjustment (the receivable for prepaid taxes), in accordance with the provisions of IAS 12.

## Reclassification as tangible fixed assets

Refer to what was stated in the point above, in respect of "Intangible fixed assets".

## Amortization of goodwill

In relation to the first application of the IFRS the Group adopted the optional exemption provided for by IFRS 1App.B (Business combinations), thus not proceeding with the re-determination of the business combinations which took place prior to January 1, 2004. Consequently the Group, in relation to the goodwill which arose as a result of the acquisitions of the Convergent Lasers and Laserdyne business branches by the current Prima North America Inc:

- kept, in the IFRS financial statements as at the transition date, the same value for the goodwill in existence in the Consolidated Financial Statements (drawn up in accordance with Italian accounting Principles);
- using the business plans and other information in existence at the transition date performed the "impairment test" on the value of such assets with a positive result;
- reversed, in accordance with IFRS 3p55, the 10-year portion of amortization calculated on the goodwill in accordance with Italian Accounting Principles, in the Income Statement relative to the financial period closed as at December 31, 2004.



c. *Tax assets for prepaid taxes*

|                                  | 1 January 2004 | 31 December 2004 |
|----------------------------------|----------------|------------------|
| Intangible fixed assets          | 167            | 159              |
| Revenues                         | 1,957          | 2,209            |
| Long-service bonuses             | 136            | 159              |
| Derivative financial instruments | 49             | 99               |
| Other minor items                | (102)          | (30)             |
| <b>Total</b>                     | <b>2,207</b>   | <b>2,596</b>     |

The adjustments included in this paragraph highlight the fiscal effect of certain IFRS transition adjustments, which are contained in the previous and subsequent paragraphs. These are reflected in the Financial Statements as assets in compliance with IAS 12p24 as it is probable that a taxable income will be realized in the face of which the temporary deductible difference can be utilized. In compliance with IAS 12p47 the credits for prepaid taxes were valued with the tax rates which are forecast as being applicable during the financial period in which the asset will be realized.

**Intangible fixed assets**

The adjustment in question represents the tax effect arising from the reversal of the long-term charges commented on in the paragraph "Intangible fixed assets", above.

**Revenues**

The adjustment in question refers to the raising of receivables for prepaid taxes on the elimination of the margin in respect of machines which have been invoiced but not yet accepted by the customers. For further details on this adjustment see the paragraph dealing with inventories.

**Long-service bonuses**

This relates to the raising of a receivable for prepaid taxes arising from the adjustments attributed to the long-service bonuses commented on in the paragraph "Post-employment benefits".

**Derivative financial instruments**

The adjustment in question includes the tax effect arising from the recording in the Financial Statements of the financial liabilities which originated in the face of derivative financial instruments (Interest Rate Swaps and USD currency options) commented on below.

**Other minor items**

This item includes the tax effect arising from the adjustments made to the infra-group margins, which are required as a result of the adjustment to revenues referred to above.

d. *Derivative financial instruments.*

The adjustment in question refers to the recording in the Financial Statements of the fair value of the derivative financial instruments in compliance with IAS 39p46: Interest Rate Swaps on finance contracts and USD currency options to cover the variability risk in respect of financial flows stemming from the euro/USD ratio. Despite not being speculative in nature, the financial instruments in question do not have the requirements envisaged by IAS 39p88 which are necessary for the application of the accounting of hedging operations (IAS 39 p85-102).

For this reason they are accounted for in compliance with IAS 39p46 as if they were "financial assets at fair value with fair value changes recorded in the Income Statement".

For further details see also the section in the Financial Statements dedicated to financial risk management in the chapter relating to accounting principles.

e. *Inventories*

In compliance with IAS 18p16c, revenues from the sales of cutting and drilling machines, made by Prima Industrie S.p.A., Prima North America Inc. and Prima UK, are accounted for when they are accepted by the end-customer. This generally coincides with the signature of the testing report by the customer.

On the other hand, invoicing takes place when the goods are taken on by the transporters, in agreement with the international transport clauses known as "incoterms". From that time onwards the Prima Industrie Group is free from all liability relating to transportation.

As a result of the fact that the invoicing date is not in alignment with the date of recognition of the revenue, on the basis of IAS 18p16c, in preparing the IFRS Financial Statements, 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 realized margin, with the contra-entry being made to "Advances" in the Balance Sheet liabilities.

This recording protects the proper representation of the underlying contractual relationships.

As a result, the portion of the provisions for warranty works, included in the item "Provision for risks and charges", raised in respect of machines that have been invoiced but not yet tested, is reversed (see also paragraph k "provision for risks and charges").

The relative tax effect is calculated on these adjustments on the basis of IAS 12.

For further information kindly refer to the paragraph "Recognition of revenues" in the chapter relating to accounting principles.

*f. Other receivables*

|                                  | <b>1 January 2004</b> | <b>31 December 2004</b> |
|----------------------------------|-----------------------|-------------------------|
| Treasury stock                   | (324)                 | (171)                   |
| Derivative financial instruments | -                     | (275)                   |
| Other minor items                | (25)                  | (31)                    |
| <b>Total</b>                     | <b>(349)</b>          | <b>(477)</b>            |

**Treasury stock**

In the Financial Statements drawn in accordance with Italian Accounting Principles treasury stock was recorded amongst current assets and valued at the lower of cost and market value. In terms of the law, a reserve for the "purchase of treasury stock" was recorded in the stockholders' equity. The economic effects relating to the transactions in respect of treasury stock were recorded in the Income Statement.

In compliance with IAS 32p33, treasury stock (as well as any profit or loss arising from the trading therein) were used to reduce the Stockholders' Equity. The "Reserve for treasury stock in portfolio" was reclassified in the item "Profits (Losses) carried forward".

**Derivative financial instruments**

The adjustment in question relates to the reversal of the forward transactions from the Financial Statements prepared in accordance with Italian Accounting Principles. These transactions were reinserted in the Financial Statements as "financial assets/liabilities at fair value with changes to the income statement" (refer to paragraph "d. Derivative financial instruments).

*g. Stockholders' equity*

**Capital stock**

In terms of IAS 32p33, the capital stock was diminished by the value which represents the treasury stock. For further information on the adjustment refer to paragraph "f. Other receivables".

**Treasury stock reserve**

The reserve for treasury stock was reclassified in the item, "Profits (Losses) carried forward". For further information on the adjustment refer to paragraph "f. Other receivables".

**Conversion reserve**

In the application of the optional exemption provided for in IFRS 1p22, the "Conversion Reserve" was cleared against the "Profits (Losses) carried forward". The reserve will be replenished after the transition date.

**Profits (losses) carried forward**

The adjustments to the item, "Profits (Losses) carried forward" are made up as shown in table 5. Kindly refer to the applicable paragraphs for the comments thereon.

h. *Amounts due to banks and in respect of loans*

The adjustment made in respect of the item "Amounts due to banks and in respect of loans" relates to the portion of the debt generated by reason of the accounting for the financial leases for certain leasing contracts for electronic office equipment which fulfill the requirements requested by IAS 17 p.10 in order to be accounted for in accordance with the financial method (IAS17 p22).

i. *Tax liabilities for deferred and current taxes*

|                                  | 1 January 2004 | 31 December 2004 |
|----------------------------------|----------------|------------------|
| Tangible fixed assets            | 224            | 266              |
| Warranty fund                    | 573            | 839              |
| Employees' severance fund        | 27             | 30               |
| Derivative financial instruments | 66             | 90               |
| Other minor items                | (153)          | (201)            |
| <b>Total</b>                     | <b>737</b>     | <b>1,024</b>     |

**Tangible fixed assets**

Refer to paragraph "a. Tangible fixed assets".

**Guarantee fund**

Refer to paragraph "e. Inventories".

**Employees' severance fund**

Refer to paragraph "j. Post-employment benefits".

**Derivative financial instruments**

Refer to paragraph "d. Derivative financial instruments".

**Current taxes**

In the Financial Statement prepared in accordance with Italian Accounting Principles the Group availed itself of the right connected to paragraph 7 of section 81 of the Consob regulations, presenting the results for the period net of tax. In the IFRS Financial Statements, insofar as no exceptions are permitted to the application of the principles, an estimate of the tax burden was inserted.

j. *Post-employment benefits*

|                                                           | 1 January 2004 | 31 December 2004 |
|-----------------------------------------------------------|----------------|------------------|
| Employees' severance fund                                 | (79)           | (185)            |
| Long-service bonuses                                      | 414            | 483              |
| Reclassif: early-retirement incentives and Other payables | (168)          | -                |
| <b>Total</b>                                              | <b>167</b>     | <b>298</b>       |

**Employees' severance fund**

The Employees' severance fund, calculated in the Financial Statements according to Italian Accounting Principles in accordance with article 2120 of the Italian Civil Code, on the basis of IAS 19 is considered to be a defined benefits pension plan. As such it must be valued by applying the statistical/actuarial method of the "projected unit credit" (IAS 19p68) For the valuation of the liabilities the services of an independent actuary, duly registered on the National Roll of Actuaries, were used. On the basis of IAS 12, the relative tax effect was calculated on the basis of this adjustment.

**Long-service bonuses**

The long-service bonus, amounting to two gross monthly salaries, is due to employees of Prima Industrie S.p.A. and Prima Electronics S.p.A. upon attainment of the 20th, 30th and 35th year of service. The adjustment in question reflects the present value of the liability. For the valuation of the liabilities the services of an independent actuary, duly recorded on the National Roll of Actuaries, were used. On the basis of IAS 12, the relative tax effect was calculated on the basis of this adjustment.

**Early-retirement incentives**

The company recorded the amounts to be paid out in terms of the early-retirement incentives under the item "Employees' severance fund" in the Consolidated Financial Statements as at January 1, 2004, prepared in accordance with the Italian Accounting Principles. In consideration of the nature of this estimate with respect to the employees' severance fund, the amount set aside was reclassified to the item "Other payables".

*k. Provision for risks and charges*

|                                  | <b>1 January 2004</b> | <b>31 December 2004</b> |
|----------------------------------|-----------------------|-------------------------|
| Warranty fund                    | (1,594)               | (1702)                  |
| Provision for probable taxes     | (150)                 | (108)                   |
| Derivative financial instruments | 149                   | -                       |
| <b>Total</b>                     | <b>(1,595)</b>        | <b>(1,810)</b>          |

**Warranty fund**

For further information refer to paragraph "e. Inventories".

**Provision for probable taxes**

This relates to the elimination of the provision for probable taxes recorded by the parent company, Prima Industrie S.p.A., pursuant to the tax re-assessment issued by the Finance Police (which related to the failure to compute the interest received on the loans granted to Prima North America Inc and other minor comments). The re-assessment was issued at the end of an audit relating to the 2000 financial year, which audit took place during the second semester of 2002. The provision is reversed because at the transition date it exceeded the actual risk of having to pay a penalty.

**Derivative financial instruments**

The adjustment in question relates to the reversal of the forward transactions from the Financial Statements prepared in accordance with Italian Accounting Principles. These transactions were reinserted in the Financial Statements as "financial assets/liabilities at fair value with changes to the Income Statement" (refer to paragraph "d. Derivative financial instruments").

*l. Advances*

The adjustment to the "Advances" account is fully described in paragraph "e. Inventories".

*m. Other payables*

This relates to the reclassification of early retirement incentives from the Employees' severance fund account to the item "Other payables".

## Comments on the IFRS adjustments made to the Income Statement

### a. *Income*

The item "Net revenues from sales and services" highlights the financial aspect that follows from the adjustment which is necessary to record the revenues derived from the sales of machines at the time of acceptance instead of at the time of invoicing (IAS 18p16c) For further information refer to paragraph "e. Inventories".

### b. *Changes in inventories of semi-finished and finished products and raw material*

|                                | <b>31 December 2004</b> |
|--------------------------------|-------------------------|
| Change in inventories          | 2,663                   |
| Elision of infra-group margins | (382)                   |
| <b>Total</b>                   | <b>2,281</b>            |

#### **Change in inventories**

The adjustment in question is due to the recording of revenues for the sales of machines at the time of acceptance instead of at the time of invoicing (IAS 18p16c).

#### **Elision of infra-group margins**

The reversal of a part of the sales, consequent to the adjustment of revenues, has also imposed the review of the elimination of the infra-group margins in the consolidation process.

### c. *Other operating income*

|                                                                    | <b>31 December 2004</b> |
|--------------------------------------------------------------------|-------------------------|
| Financial leasing adjustments                                      | (21)                    |
| Elimination of the gain on the sale of treasury stock              | (11)                    |
| Elimination of the utilization of the provision for probable taxes | (42)                    |
| <b>Total</b>                                                       | <b>(74)</b>             |

#### **Financial leasing adjustments**

This relates to the financial effect of the recording provided for by IAS 17p20 for certain leasing contracts for electronic office equipment, not disclosed as financial leases according to Italian Accounting Principles.

#### **Elimination of the gain on the sale of treasury stock**

This relates to the elimination of the gains realized on the sale of treasury stock, in accordance with IAS 32p33. For further information refer to paragraph "f. Other receivables".

### Elimination of the utilization of the provision for probable taxes

This refers to the reversal of the utilization of the portion of the provision for probable taxes, already eliminated against Stockholders' equity at the transition date. For more information see paragraph "k. Provision for risks and charges".

#### d. *Personnel costs*

|                           | 31 December 2004 |
|---------------------------|------------------|
| Employees' severance fund | 283              |
| Long-service bonuses      | (70)             |
| <b>Total</b>              | <b>213</b>       |

The adjustment highlights the financial effects of recording Employees' severance fund according to IAS 19 and making provision for long-service bonuses. For further information refer to paragraph "j. Post-employment benefits".

#### e. *Amortization & Depreciation*

|                                                     | 31 December 2004 |
|-----------------------------------------------------|------------------|
| Elimination of amortization on goodwill             | 306              |
| Elimination of depreciation on pluriennial expenses | 166              |
| Elimination of depreciation on land                 | (20)             |
| Depreciation from financial leasing                 | 39               |
| Other minor items                                   | (10)             |
| <b>Total</b>                                        | <b>481</b>       |

### Elimination of amortization on goodwill

This refers to the elimination of the 10-year portion of amortization calculated on goodwill, allocated to the Income Statement according to Italian Accounting Principles (see paragraph "b. Intangible fixed assets" for further details). On the basis of IFRS 3p55 goodwill must not be amortized, but must be written down for any "impairment".



### **Elimination of depreciation on pluriennial expenses**

Refer to paragraph "b. Intangible fixed assets".

### **Elimination of depreciation on land**

This relates to the elimination of the portion of depreciation calculated on the basis of the previous Italian Accounting Principles relative to land insofar as it is considered as "pertaining" to the building (for more detail refer to paragraph "a. Tangible fixed assets").

#### *f. Other operating costs*

#### **31 December 2004**

|                                                         |           |
|---------------------------------------------------------|-----------|
| Elimination of capitalized pluriennial expenses         | (116)     |
| Adjustment of warranty for the work provision guarantee | 178       |
| Elimination of losses from sale of treasury stock       | 25        |
| <b>Total</b>                                            | <b>87</b> |

### **Elimination of capitalized pluriennial expenses**

This relates to a reversal of certain long-term expenses that do not have the requirements demanded by IAS 38p10 for capitalization.

### **Adjustment of the provision for work under guarantee**

This relates to the net effect of the adjustments on the recording of revenues (see paragraph "e. Inventories), determined as the difference between the opening and closing Balance Sheet adjustments.

### **Elimination of losses on treasury stock**

This relates to the elimination of losses on the sale of treasury stock in accordance with IAS 32p33. For further information refer to paragraph "f. Other receivables".

#### *g. Financial expenses*

#### **31 December 2004**

|                                                             |              |
|-------------------------------------------------------------|--------------|
| Interest paid on leasing contracts                          | (59)         |
| Interest paid on contributory plans for employees           | (176)        |
| Changes in "fair value" of derivative financial instruments | (88)         |
| <b>Total</b>                                                | <b>(323)</b> |

### Interest paid on leasing contracts

This relates to the portion of interest paid on certain leases in respect of electronic office equipment accounted for in accordance with the financial method provided for in IAS 17.

### Interest paid on contributory plans for employees

The adjustment takes account of the portion of interest paid in the recording of the Employees' severance fund, as a defined benefits plan, in accordance with IAS 19.

### Changes in "fair value" of derivative financial instruments

The adjustment includes the changes in "fair value" of the derivative financial instruments. For further details refer to paragraph "d. Derivative financial instruments".

#### *h. Deferred taxes*

|                              | <b>31 December 2004</b> |
|------------------------------|-------------------------|
| Tangible fixed assets        | (15)                    |
| Intangible fixed assets      | (57)                    |
| Post-employment benefits     | (12)                    |
| Derivatives                  | 32                      |
| Revenues/ Warranty provision | 180                     |
| Provision for probable taxes | 15                      |
| Other minor items            | 10                      |
| <b>Total</b>                 | <b>153</b>              |

The table set out above highlights the financial effects of the changes in deferred and current taxes, exhaustively dealt with in the previous paragraph.

*On behalf of the Board of Directors*

*Chairman*



*Gianfranco Carbonato*



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

**11. STATUTORY FINANCIAL STATEMENTS  
AT DECEMBER 31, 2005:**

# 11. STATUTORY FINANCIAL STATEMENTS AT DECEMBER 31, 2005: BALANCE SHEET, INCOME STATEMENT

PRIMA INDUSTRIE S.p.A. - Financial Statements at December 31, 2005 & 2004

(Values expressed in euro)

## BALANCE SHEET

### ASSETS

|                                                         |              | 12.31.2005 |            | 12.31.2004   |            |
|---------------------------------------------------------|--------------|------------|------------|--------------|------------|
| <b>A. DUE FROM STOCKHOLDERS FOR PAYMENTS STILL DUE</b>  |              | 0          |            | 0            |            |
| <b>B. FIXED ASSETS</b>                                  |              |            |            |              |            |
| I. Intangible fixed assets                              |              |            |            |              |            |
| 1) Plant and expansion costs                            |              | 0          |            | 0            |            |
| 2) Research, development and advertising costs          |              | 0          |            | 0            |            |
| 3) Industrial patent and intellectual property          |              | 189.108    |            | 160.117      |            |
| 4) Concessions, licences, trademarks and similar rights |              | 3.790      |            | 4.783        |            |
| 5) Goodwill                                             |              | 0          |            | 0            |            |
| 6) Assets under construction and advances               |              | 0          |            | 0            |            |
| 7) Other intangible fixed assets                        |              | 271.263    | 464.161    | 322.212      | 487.112    |
| II. Tangible fixed assets                               |              |            |            |              |            |
| 1) Land and buildings:                                  | 801.114      |            |            | 801.114      |            |
| less: accumulated depreciation                          | (265.634)    | 535.480    |            | (223.133)    | 577.981    |
| 2) Plant and machinery                                  | 1.795.631    |            |            | 1.648.551    |            |
| less: accumulated depreciation                          | (1.269.792)  | 525.839    |            | (1.158.413)  | 490.138    |
| 3) Industrial and commercial equipment                  | 1.835.976    |            |            | 1.747.984    |            |
| less: accumulated depreciation                          | (1.562.003)  | 273.973    |            | (1.399.420)  | 348.564    |
| 4) Other assets                                         | 1.649.567    |            |            | 1.515.969    |            |
| less: accumulated depreciation                          | (1.387.910)  | 261.657    |            | (1.301.869)  | 214.100    |
| 5) Assets under construction and advances               |              | 0          | 1.596.949  | 0            | 1.630.783  |
| III. Financial fixed assets                             |              |            |            |              |            |
| 1) Equity investments                                   |              |            |            |              |            |
| a) in subsidiaries                                      | 26.633.954   |            |            | 24.442.579   |            |
| less: equity investment devaluation reserve             | (13.793.041) |            |            | (15.689.956) |            |
| b) in associated companies                              | 2.271.464    |            |            | 1.855.767    |            |
| less: equity investment devaluation reserve             | (1.021.686)  |            |            | (897.007)    |            |
| c) in controlling companies                             | 0            |            |            | 0            |            |
| less: equity investment devaluation reserve             | 0            |            |            | 0            |            |
| d) in other companies                                   | 826.286      |            |            | 774.686      |            |
| less: equity investment devaluation reserve             | (774.686)    | 14.142.291 |            | (774.686)    | 9.711.383  |
| 2) Receivables (*)                                      | 0            |            |            | (*)          |            |
| a) from subsidiaries                                    | 2.898.962    |            |            | 0            | 4.265.685  |
| b) from associated companies                            | 0            | 150.416    |            | 0            | 150.416    |
| less: receivables devaluation reserve                   | (150.416)    |            |            | (150.416)    |            |
| c) from controlling companies                           | 0            | 0          |            | 0            | 0          |
| d) Other receivables                                    | 9.446        | 2.908.408  |            | 31.388       | 4.297.073  |
| 3) Other securities                                     |              | 258.484    |            |              | 249.478    |
| 4) Treasury stock                                       |              | 0          | 17.309.183 | 0            | 14.257.934 |
| <b>TOTAL FIXED ASSETS (B)</b>                           |              | 19.370.293 |            |              | 16.375.829 |

**PRIMA INDUSTRIE S.p.A. - Financial Statements at December 31, 2005 & 2004**

(Values expressed in euro)

**BALANCE SHEET**

**ASSETS**

**C. CURRENT ASSETS**

|                                                        |           |             |            |           |            |
|--------------------------------------------------------|-----------|-------------|------------|-----------|------------|
| I. Inventories                                         |           |             |            |           |            |
| 1) Raw materials, consumables and supplies             |           | 7.770.394   |            | 6.984.227 |            |
| 2) Work in progress and semifinished products          |           | 3.167.820   |            | 2.765.540 |            |
| 3) Contract work in progress                           |           | 0           |            | 0         |            |
| 4) Finished product and goods                          |           | 2.975.902   |            | 2.478.900 |            |
| 5) Advances                                            |           | 0           |            | 0         |            |
| less: provision for writedown of stock                 |           | (1.188.166) |            | (813.166) |            |
| less: provision for writedown of finished products     |           | 0           | 12.725.950 | (490.000) | 10.925.501 |
| II. Receivables                                        |           |             |            |           |            |
|                                                        | (**)      |             |            | (**)      |            |
| 1) Trade receivables                                   | 1.434.304 | 27.049.775  |            | 1.466.000 | 26.302.560 |
| less: taxed & non taxed allow. for doubtful a/c's:     |           | (1.571.534) | 25.478.241 |           | (863.103)  |
| 2) Subsidiaries                                        |           | 0           | 5.536.702  |           | 0          |
| 3) Associated companies                                |           | 0           | 2.086.321  |           | 0          |
| 4) Controlling companies                               |           | 0           | 0          |           | 0          |
| 4-bis) Tax receivables                                 |           | 0           | 1.265.584  |           | 0          |
| 4-ter) Prepaid taxes                                   |           | 0           | 2.607.963  |           | 0          |
| 5) Others                                              |           | 0           | 2.583.950  |           | 0          |
|                                                        |           |             | 39.558.761 |           | 2.755.896  |
|                                                        |           |             |            |           | 39.784.126 |
| III. Current financial assets                          |           |             |            |           |            |
| 1) Equity investments in subsidiaries                  |           | 0           |            | 0         |            |
| less: equity investment devaluation reserve            |           | 0           | 0          | 0         | 0          |
| 2) Equity investments in associated companies          |           | 0           |            | 0         |            |
| 3) Equity investments in controlling companies         |           | 0           |            | 0         |            |
| 4) Equity investments in other companies               |           |             | 232        |           | 232        |
| less: equity investment devaluation reserve            |           |             | 0          |           | 0          |
| 5) Treasury stock                                      |           |             | 92.872     |           | 170.607    |
| 6) Other securities                                    |           |             | 0          |           | 0          |
|                                                        |           |             | 93.104     |           | 170.839    |
| IV. Cash and cash equivalents                          |           |             |            |           |            |
| 1) Bank and postal accounts                            |           |             | 7.118.870  |           | 3.132.218  |
| 2) Cheques                                             |           |             | 0          |           | 0          |
| 3) Cash and cash equivalents on hand                   |           |             | 19.223     | 7.138.093 | 8.945      |
|                                                        |           |             |            |           | 3.141.163  |
| <b>TOTAL CURRENT ASSETS (C)</b>                        |           |             | 59.515.908 |           | 54.021.629 |
| <b>D. ACCRUED INCOME &amp; PREPAID EXPENSES</b>        |           |             |            |           |            |
| 1) Issue discounts and other similar expenses on loans |           | 0           |            | 0         |            |
| 2) Other accrued income and prepaid expenses           |           | 167.869     | 167.869    | 489.677   | 489.677    |
| <b>TOTAL ASSETS</b>                                    |           |             | 79.054.070 |           | 70.887.135 |

(\*) RECEIVABLES DUE WITHIN ONE YEAR

(\*\*) RECEIVABLES DUE BEYOND ONE YEAR

**PRIMA INDUSTRIE S.p.A. - Financial Statements at December 31, 2005 & 2004**

**BALANCE SHEET**

(Values expressed in euro)

**LIABILITIES**

|                                                               |           |            | <b>31.12.2005</b> |            | <b>31.12.2004</b> |
|---------------------------------------------------------------|-----------|------------|-------------------|------------|-------------------|
| <b>A. STOCKHOLDERS' EQUITY</b>                                |           |            |                   |            |                   |
| I. Capital stock                                              |           |            | 11.500.000        |            | 11.500.000        |
| II. Share premium reserve                                     |           |            | 15.664.893        |            | 15.664.893        |
| III. Revaluation reserves                                     |           |            | 0                 |            | 0                 |
| IV. Legal reserve                                             |           |            | 770.910           |            | 729.550           |
| V. Statutory reserves                                         |           |            | 0                 |            | 0                 |
| VI. Reserve for treasury stock in portfolio                   |           |            | 92.872            |            | 170.606           |
| VII. Other reserves                                           |           |            | 220.624           |            | 0                 |
| VIII. Profits (losses) carried forward                        |           |            | 0                 |            | 0                 |
| IX. Profit (loss) for the year                                |           |            | 3.779.860         |            | 827.199           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                             |           |            | <b>32.029.159</b> |            | <b>28.892.248</b> |
| <b>B. PROVISIONS FOR RISKS AND CHARGES</b>                    |           |            |                   |            |                   |
| 1) Retirement funds and similar provisions                    |           | 0          |                   | 0          |                   |
| 2) Provisions for taxes                                       |           | 1.482.986  |                   | 1.198.163  |                   |
| 3) Others                                                     |           | 2.723.000  | 4.205.986         | 2.198.503  | 3.396.666         |
| <b>C. EMPLOYEES' SEVERANCE PAY</b>                            |           |            | <b>3.370.190</b>  |            | <b>2.973.925</b>  |
| <b>D. PAYABLES</b>                                            |           |            |                   |            |                   |
|                                                               | (**)      |            |                   | (**)       |                   |
| 1) Bonds                                                      | 0         | 0          | 0                 | 0          |                   |
| 2) Convertible bonds                                          | 0         | 0          | 0                 | 0          |                   |
| 3) Amounts due to stockholders i.r.o. funding                 | 0         | 0          | 0                 | 0          |                   |
| 4) Amounts due to banks                                       | 2.330.634 | 13.368.306 | 6.376.108         | 12.013.094 |                   |
| 5) Amounts due to other lenders                               | 640.740   | 726.471    | 726.471           | 810.821    |                   |
| 6) Advances                                                   | 0         | 836.094    | 0                 | 915.886    |                   |
| 7) Trade accounts payable                                     | 0         | 15.760.905 | 0                 | 14.257.854 |                   |
| 8) Payables represented by debt instruments                   | 0         | 0          | 0                 | 0          |                   |
| 9) Amounts due to subsidiaries                                | 0         | 4.764.798  | 0                 | 4.121.782  |                   |
| 10) Amounts due to associated companies                       | 0         | 0          | 0                 | 0          |                   |
| 11) Amounts due to Parent company                             | 0         |            | 0                 |            |                   |
| 12) Taxes payable                                             | 0         | 1.411.089  | 0                 | 1.334.905  |                   |
| 13) Amounts due to provident and social security institutions | 0         | 860.608    | 0                 | 750.657    |                   |
| 14) Other payables                                            | 0         | 1.349.472  | 39.077.743        | 1.088.221  | 35.293.220        |
| <b>E. ACCRUED EXPENSES &amp; DEFERRED INCOME</b>              |           |            |                   |            |                   |
| 1) Issue premiums                                             |           | 0          |                   | 0          |                   |
| 2) Other accrued expenses and deferred income                 |           | 370.992    | 370.992           | 331.076    | 331.076           |
| <b>TOTAL LIABILITIES</b>                                      |           |            | <b>79.054.070</b> |            | <b>70.887.135</b> |

(\*\*) PAYABLES DUE BEYOND ONE YEAR

## PRIMA INDUSTRIE S.p.A. - Financial Statements at December 31, 2005 & 2004

(Values expressed in euro)

### MEMORANDUM ACCOUNTS

|                                                      | <u>31 december 2005</u> |                   | <u>31 december 2004</u> |                   |
|------------------------------------------------------|-------------------------|-------------------|-------------------------|-------------------|
| <b>1. Unsecured guarantees granted</b>               |                         |                   |                         |                   |
| a) Suretyships on behalf of:                         |                         |                   |                         |                   |
| - associated companies                               | 1.695.346               |                   | 1.468.321               |                   |
| - others                                             | <u>35.641</u>           | 1.730.987         | <u>31.214</u>           |                   |
| Total unsecured guarantees granted                   |                         | <u>1.730.987</u>  |                         | <u>1.499.535</u>  |
| <b>2. Commitments</b>                                |                         |                   |                         |                   |
| a) purchase                                          | 809.080                 |                   | 0                       |                   |
| b) sales                                             | 0                       |                   | 1.970.359               |                   |
| c) lease installments falling due in the near future | 1.006.327               |                   | 1.335.617               |                   |
| Total commitments                                    |                         | <u>1.815.407</u>  |                         | <u>3.305.976</u>  |
| <b>3. Contingency accounts</b>                       |                         |                   |                         |                   |
| a) discounted bills                                  | 923.242                 |                   | 1.764.300               |                   |
| Total contingency accounts                           |                         | <u>923.242</u>    |                         | <u>1.764.300</u>  |
| <b>4. Others</b>                                     |                         |                   |                         |                   |
| a) Commitments to repurchase from customers          | 2.028.901               |                   | 3.090.169               |                   |
| b) Merchandise at third parties                      | 2.443.743               |                   | 2.328.592               |                   |
| c) Guarantees given by third parties for our account | 7.300.774               |                   | 6.145.266               |                   |
| Total others                                         |                         | <u>11.773.418</u> |                         | <u>11.564.027</u> |
|                                                      |                         | <u>16.243.054</u> |                         | <u>18.133.838</u> |

**PRIMA INDUSTRIE S.p.A. - Financial Statements at December 31, 2005 & 2004**

values expressed in euro

**INCOME STATEMENT**

|                                                                                                 | 31.12.2005   |                     | 31.12.2004  |                     |
|-------------------------------------------------------------------------------------------------|--------------|---------------------|-------------|---------------------|
| <b>A. VALUE OF PRODUCTION</b>                                                                   |              |                     |             |                     |
| 1) Revenues from sales and services                                                             |              | 72.715.680          |             | 65.913.443          |
| 2) Changes in inventories of work in progress, semifinished and finished products               |              | 987.002             |             | (309.158)           |
| 3) Change in contract work in progress                                                          |              | 402.280             |             | 431.645             |
| 4) Increases in fixed assets for internal work                                                  |              | 27.776              |             | 88.663              |
| 5) Other income and revenues                                                                    |              |                     |             |                     |
| a) operating grants                                                                             | 0            |                     | 0           |                     |
| b) other                                                                                        | 2.720.283    | 2.720.283           | 2.399.321   | 2.399.321           |
| <b>TOTAL VALUE OF PRODUCTION (A)</b>                                                            |              | <b>76.853.021</b>   |             | <b>68.523.914</b>   |
| <b>B. COSTS OF PRODUCTION</b>                                                                   |              |                     |             |                     |
| 6) Raw materials, consumables and supplies                                                      |              | (40.485.762)        |             | (35.820.846)        |
| 7) Service costs                                                                                |              | (15.284.147)        |             | (14.533.224)        |
| 8) Leases and rentals                                                                           |              | (1.108.666)         |             | (1.098.953)         |
| 9) Personnel costs:                                                                             |              |                     |             |                     |
| a) salaries and wages                                                                           | (10.079.185) |                     | (9.033.353) |                     |
| b) social security contributions                                                                | (3.293.296)  |                     | (2.988.881) |                     |
| c) employees' severance pay                                                                     | (609.294)    |                     | (558.714)   |                     |
| d) retirement fund and similar provisions                                                       | 0            |                     | 0           |                     |
| e) other personnel costs                                                                        | (267.482)    | (14.249.257)        | (266.071)   | (12.847.019)        |
| 10) Amortization, depreciation and writedowns                                                   |              |                     |             |                     |
| <b>a) amortization of intangible fixed assets</b>                                               | (205.419)    |                     | (217.130)   |                     |
| <b>b) depreciation of tangible fixed assets</b>                                                 | (405.248)    |                     | (395.543)   |                     |
| c) writedowns of intangible and tangible fixed assets                                           | 0            |                     | 0           |                     |
| d) writedown of receivables incl. in current assets & w/down of cash & cas                      | (750.000)    | (1.360.667)         | (100.000)   | (712.673)           |
| 11) Changes in inventories of raw materials, consumables, supplies and merchandise              |              | 411.167             |             | 49.635              |
| 12) Provisions for risks                                                                        |              | (842.087)           |             | 121.644             |
| 13) Other provisions                                                                            |              | 0                   |             | 0                   |
| 14) Sundry operating expenses                                                                   |              | (851.367)           |             | (659.065)           |
| <b>TOTAL COSTS OF PRODUCTION (B)</b>                                                            |              | <b>(73.770.786)</b> |             | <b>(65.500.501)</b> |
| <b>DIFFERENCE BETWEEN THE VALUE AND COSTS OF PRODUCTION (A - B)</b>                             |              | <b>3.082.235</b>    |             | <b>3.023.413</b>    |
| <b>C. FINANCIAL INCOME AND EXPENSES</b>                                                         |              |                     |             |                     |
| 15) Income from equity investments                                                              |              |                     |             |                     |
| a) dividends and other income from subsidiary companies                                         | 600.000      |                     | 600.000     |                     |
| b) dividends and other income from associated companies                                         | 0            |                     | 0           |                     |
| c) dividends and other income from other companies                                              | 0            | 600.000             | 0           | 600.000             |
| 16) Other financial income:                                                                     |              |                     |             |                     |
| a) from receivables included in financial fixed assets                                          |              |                     |             |                     |
| - from subsidiaries                                                                             | 0            |                     | 0           |                     |
| - from associated companies                                                                     | 0            |                     | 0           |                     |
| - from controlling companies                                                                    | 0            |                     | 0           |                     |
| - others                                                                                        | 0            |                     | 0           |                     |
| b) from securities included in financial fixed assets that do not constitute equity investments | 0            |                     | 0           |                     |
| c) from securities included in current assets that do not constitute equity investments         | 0            |                     | 0           |                     |
| d) other income                                                                                 |              |                     |             |                     |
| - interest and commission from subsidiaries                                                     | 190.379      |                     | 101.134     |                     |
| - interest and commission from associated companies                                             | 0            |                     | 0           |                     |
| - interest and commission from controlling companies                                            | 0            |                     | 0           |                     |
| - other interest and commission and sundry income                                               | 403.600      | 593.979             | 466.295     | 567.429             |
| 17) Interest and other financial expenses                                                       |              |                     |             |                     |
| a) to subsidiaries                                                                              | (39.718)     |                     | (39.589)    |                     |
| b) to associated companies                                                                      | 0            |                     | 0           |                     |
| c) to Controlling companies                                                                     | 0            |                     | 0           |                     |
| d) others                                                                                       | (1.055.172)  | (1.094.890)         | (1.126.289) | (1.165.878)         |
| 17-bis) Profits and losses on exchange                                                          |              | (11.018)            |             | (27.090)            |
| <b>TOTAL FINANCIAL INCOME AND EXPENSES (C)</b>                                                  |              | <b>88.071</b>       |             | <b>(25.539)</b>     |



## INCOME STATEMENT

## D. ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS

|                                                               |           |                  |           |                  |
|---------------------------------------------------------------|-----------|------------------|-----------|------------------|
| 18) Revaluations:                                             |           |                  |           |                  |
| a) equity investments                                         | 2.208.046 |                  | 0         |                  |
| b) financial fixed assets                                     | 0         |                  | 0         |                  |
| c) securities included in current assets                      | <u>0</u>  | 2.208.046        | <u>0</u>  | 0                |
| 19) Writedowns:                                               |           |                  |           |                  |
| a) equity investments                                         | (295.287) |                  | (393.966) |                  |
| b) financial fixed assets                                     | 0         |                  | 0         |                  |
| c) securities included in current assets                      | <u>0</u>  | (295.287)        | <u>0</u>  | (393.966)        |
| <b>TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS (D)</b> |           | <u>1.912.759</u> |           | <u>(393.966)</u> |

## E. EXTRAORDINARY INCOME AND EXPENSES

|                                             |                |                |                  |                  |
|---------------------------------------------|----------------|----------------|------------------|------------------|
| 20) Income                                  |                |                |                  |                  |
| a) capital gains on sales                   | 123.176        |                | 11.032           |                  |
| a) other                                    | <u>110.422</u> | 233.598        | <u>0</u>         | 11.032           |
| 21) expenses                                | 0              |                | 0                |                  |
| a) losses on disposals                      | (11.608)       |                | (25.151)         |                  |
| b) prior year taxes                         | 0              |                | 0                |                  |
| c) other                                    | <u>0</u>       | (11.608)       | <u>(100.000)</u> | (125.151)        |
| <b>TOTAL OF THE EXTRAORDINARY ITEMS (E)</b> |                | <u>221.990</u> |                  | <u>(114.119)</u> |

## RESULT BEFORE TAX (A -B +- C +- D +- E)

|  |           |           |
|--|-----------|-----------|
|  | 5.305.055 | 2.489.789 |
|--|-----------|-----------|

## 22) INCOME TAXES FOR THE FINANCIAL YEAR


|             |                |                |
|-------------|----------------|----------------|
| a) current  | (1.523.274)    | (1.318.127)    |
| b) deferred | (679.707)      | (553.086)      |
| c) prepaid  | <u>677.786</u> | <u>208.623</u> |

## 23) PROFIT (LOSS) FOR THE YEAR

|  |                  |                |
|--|------------------|----------------|
|  | <u>3.779.860</u> | <u>827.199</u> |
|--|------------------|----------------|

On behalf of the Board of Directors

Chairman



Gianfranco Carbonato

## 12. STATUTORY FINANCIAL STATEMENTS AT 12/31/2005: NOTES TO THE FINANCIAL STATEMENTS

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### FORM AND CONTENT OF THE FINANCIAL STATEMENTS

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The Financial Statements for the year ended December 31, 2005 were prepared in accordance with the requirements of articles 2423 *et seq.* of the Italian Civil Code. In particular, the Financial Statements reflect the general preparation requirements contemplated by Article 2423 of the Civil Code, the basic accounting principles envisaged by Article 2423 *bis*, and the valuation criteria established for each individual item (article 2426). None of the exceptions contemplated by Articles 2423, paragraph 4 of the Civil Code were applied.

The Balance Sheet and the Income Statement were prepared in accordance with the obligatory lay-out envisaged by the Civil Code in the version following the amendments introduced by Legislative Decree No. 6 of January 17, 2003. The Financial Statements for the year were prepared in euro and the differences arising out of the rounding off of the values were allocated to the appropriate Stockholders' Equity reserve.

In compliance with the provisions of article 2423-ter of the Italian Civil Code the comparative figures for the corresponding item in the previous financial year have been provided, for each item of the Balance Sheet and Income Statement.

The following classification conventions were adopted in the preparation of the Financial Statements at December 31, 2005.

- ) the asset items of the Balance Sheet were classified on the basis of the relative corporate destination, whereas in the liabilities section the items were classified according to their source. In regard to the items that require receivables and payables due within or, beyond one year, to be separately reflected the criterion of the legal maturity of the debt (contractual or in terms of the law) has been adopted, leaving aside forecasts as to the actual possibility of collection within the next financial period.
- a) the Income Statement has been drawn up taking into account three distinct classification criteria, more specifically:
  - that of the subdivision of the entire management area into the four sub-areas identified by the layout in terms of the law;
  - that of privileging the nature of the costs, with respect to their destination;
  - that of the need to give the correct significance to the intermediate results of the dynamics of the formation of the company's result.

The notes describe, analyse and, in some cases, supplement the figures presented in the Financial Statements. They also contain the information required by article 2427 of the Italian Civil Code, the other provisions of Legislative Decree No. 127/1991 or other prior laws. Moreover, all the supplementary information deemed necessary for a true and correct representation, even though not specifically required by the legislative provisions, has been provided.

## **VALUATION CRITERIA**

The valuation criteria are based on the prudence concept and the accruals concept as well as the going concern concept, whereby it is assumed that the Company will continue its business in the foreseeable future and bearing in mind the economic function of each element of the assets and liabilities.

The most significant valuation criteria adopted in the preparation of the Financial Statements at December 31, 2005, in compliance with article 2426 of the Italian Civil Code are described in the paragraphs below.

### **Intangible fixed assets**

Intangible fixed assets are stated at purchase or production cost, inclusive of ancillary charges and are systematically amortized over the period of their estimated future utility. Other intangible fixed assets having long-term benefits have been recorded amongst the assets subject to the agreement of the Auditors in terms of article 154 of Legislative Decree 58/98. Applied research and development costs are charged to the Income Statement when incurred;

Since advertising costs are not of long-term benefit, they are entirely charged to income in the financial year when they are incurred. The amortization plans in respect of these costs were prepared, taking into account the estimated period of time over which they will produce a benefit, on the basis set out below:

|                                                                |                                   |
|----------------------------------------------------------------|-----------------------------------|
| ⇒ Plant and expansion costs                                    | 5 years                           |
| ⇒ Research and development costs                               | 5 years                           |
| ⇒ Industrial patent rights<br>and intellectual property rights | 5/3 years                         |
| ⇒ Concessions, licences, trademarks &<br>similar rights        | 10 years                          |
| ⇒ Other long-term expenses                                     | 5 years /duration of the contract |

With respect to the above the following should be noted:

- the criterion adopted for the amortization of industrial patent and intellectual properties rights is considered to be in keeping with the remaining estimated useful life of the assets;
- insofar as the item Other intangible fixed assets is concerned, the criteria depends on the various types of costs capitalized and more precisely:
  - ⇒ 5 years for extraordinary maintenance and long-term costs
  - ⇒ over the life of the lease for leasehold improvements

### **Tangible fixed assets**

Tangible fixed assets are stated at purchase or production cost, adjusted, in some cases, in the application of specific legislation dealing with monetary alignment, as shown in the relevant schedule. Cost includes additional expenses chargeable to the asset.

In this regard, no financial revaluations were made in terms of Act No. 342 of 11/21/2000 and subsequent extensions.

The depreciation was calculated on the basis of the remaining estimated useful life of the assets to which they refer, in accordance with the provisions of paragraph 1, number 2 of article 2426 of the Italian Civil Code. The depreciation in respect of assets which

were brought into use during the financial year was reduced to 50% of the normal rates applied for the same category of assets, to take into account the shorter period of use of the new asset.

The following depreciation rates have been applied:

|                                        |        |
|----------------------------------------|--------|
| Industrial premises                    | 3%     |
| Light constructions                    | 10%    |
| General plant                          | 10%    |
| Specific plant and machinery           | 15.50% |
| Metal dies                             | 25%    |
| Equipment and tools                    | 25%    |
| Electronic office equipment            | 20%    |
| Furniture, fixtures & office equipment | 12%    |
| Motor vehicles                         | 25%    |
| Cellular telephones                    | 20%    |
| Internal transport                     | 20%    |

The abovementioned rates, reduced by 50%, were applied to the additions during the financial year in order to take into account the shorter period of utilization of the new asset.

Ordinary maintenance costs are entirely debited to the Income Statement. Maintenance costs, which extend over the life of the asset, are charged to the assets to which they refer and depreciated over the remaining estimated useful life of the asset concerned.

For assets under lease agreements the accounting procedure adopted conforms to the civil law procedures in force in Italy and envisages the lease instalment paid being recorded in the Income Statement.

### **Financial fixed assets**

Equity investments are valued using the cost method and the value recorded in the Financial Statements is determined on the basis of the purchase or subscription price, adjusted whenever at the time of closing the accounts, the fixed asset has a value, which is persistently below cost. In this case they are recorded at this lower value. Where a writedown is made, the original value is restored in successive financial years, into the limit of price paid or cost born, if the factors that caused the writedown no longer apply.

### **Inventories**

Raw materials are valued at the weighted average purchase price during the year, adjusted by an adequate provision for writedowns to take account of the probable realizable value.

Work in progress is valued at the average progressive cost during the year at the time the materials are requisitioned, increased by the average industrial hourly cost of labour for internal work and by the cost price for external work.

Finished products are valued in the same way as work in progress.

The values determined as set out above are below market values.

## **Receivables**

Are stated at their estimated realizable value. For this purpose an appropriate provisions for doubtful accounts was established, determined on the basis of prudent estimates of the solvency of the debtors.

The Financial Statements include receivables in foreign currency (mainly US dollars and pounds sterling) valued at the exchange rate applicable at the closure of the financial year. The difference compared to the original amount was recorded in exchange rate losses (Item C.17 of the Income Statement).

## **Accrued income and prepaid expenses**

Accruals include the portions of income or expenses that relate to more than one financial year, already partially due in the current financial year and to be received or paid in future periods. Deferrals are portions of costs or income paid or received in the current year but referring to the financial year or future periods.

## **Provisions for risks and charges**

The provisions for risks and charges are set aside to cover losses or liabilities whose existence is certain or probable, but in respect of which at year-end, the amount or the date on which they will arise could not be determined. The allocations made reflect the best possible estimates based on the available information.

## **Employees' severance fund**

The Employees' severance fund (TFR) is set aside to cover the entire liability matured as regards employees in conformity with the legislative provisions in force, the national collective labour agreements and supplementary corporate agreements. This liability is revalued by means of cost-of-living indexes.

## **Payables**

Payables are stated at nominal value.

## **Recognition of revenues**

Revenues from the sale of products are recognized at the time of transfer of ownership, which generally coincides with delivery.

The transactions, which relate to the financial year just ended but in respect of which the related document (the invoice) will be issued in the next year are recorded in the invoices to be issued.

## **Accounting for grants**

The rules relating to the accounting for grant change depending on their status (operating grants, grants related to assets, set-up grants). In the case of operating grants, both the statutory recording of the portion of the income received, as well as the recording of its taxability, take place according to the accrual principle, which makes reference to the year in which the legal entitlement to the receipt of the grant comes into force and the amount to be received becomes certain. This will normally be in the same year as the year when the resolution assigning the grant is adopted.

In the case of grants related to assets, the revenue is recorded for statutory purposes on an accrual basis and the time frame is established with reference to the stipulation of the contracts with the entities paying the grants or in certain cases with reference to the approval of the contract by the competent authorities. Such grants are taxable on constant rates, over a maximum period of five years, starting from the financial year in which the grant is received.

There are no set-up grants.

## **Research and development costs**

Research and development costs refer to the study and design of new products, as well as the improvement and maintenance of existing ones. These costs are charged to the Income Statement in the financial year in which they are incurred.

## **Dividends**

Dividends are recognized on an accrual basis, i.e. at the time the dividend entitlement arises, which is whenever the investee company resolves to distribute the dividend.

The dividends of subsidiary companies are recorded according to the "maturity" principle, i.e. on the basis of the distribution proposals resolved upon by the subsidiary prior to the approval of the Financial Statements by the Parent Company.

This accounting treatment privileges the substantial aspects over the formal ones, insofar as it reflects the certainty of the title acquired over the dividends resolved by the subsidiary companies.

## **Income taxes**

Income tax was calculated by applying the tax provisions to the estimated taxable income, taking into account any tax relief.

In compliance with the principle of cost and income accrual, the deferred taxes, on the temporary differences between the value attributed to an asset or to a liability according to Statutory criteria and the value attributed to that asset or liability for tax purposes are provided for. The deferred tax liabilities are recorded in the item "Provisions for taxes". The deferred tax assets are recorded in the item "Prepaid taxes".

The tax effects of timing differences have been determined by applying the current rate of tax as the best estimate of the utilization rate.

The provision for deferred taxes and the credit for prepaid taxes have not been off set.

Additional information on deferred taxes is provided in the section dealing with "Income taxes for the period", which has also been provided in terms of article 2427 No. 14 of the Italian Civil Code.

Deferred tax assets are recorded only if there is a reasonable certainty of recovery.

Starting from 2004 the company, together with PRIMA ELECTRONICS S.p.A. participates in the domestic tax consolidation for the three year period 2004-2006.

An agreement was accordingly signed regulating the relationship between the two companies.

## **Conversion of items in foreign currency**

Receivables and payables originally expressed in foreign currency are converted into euro at the historical exchange rates at the date of the relative transactions. Exchange differences arising at the time of collection or payment of debts in foreign currency are recorded in the Income Statement.

Receivables and payables in foreign currency, due after the close of the financial year, were calculated at the exchange rates prevailing at year-end in terms of articles 2425-bis, paragraph 2 and 2426 paragraph 1 No. 8 *bis* of the Italian Civil Code. Accordingly, in the application of Accounting Principle No. 26, the relative unrealized positive and negative exchange differences have been reflected in the Income Statement for the financial year. Insofar as the exchange gains exceeded the exchange losses, it became necessary to make a provision for a non-distributable reserve. In the Notes to the Financial Statements the realized portion of the profits on exchange has been shown separately from the unrealised component.

## **OTHER INFORMATION**

### **Significant subsequent events**

In relation to the significant events occurring after year-end, kindly refer to the report on operations.

### **Monetary revaluation of the fixed assets**

The company did not take advantage of the possibility of revaluing existing fixed assets, since it is believed that the intangible and tangible fixed asset values stated in the Financial Statements accurately reflect their financial value. Insofar as the equity investment in PRIMA ELECTRONICS S.p.A. is concerned, which was valued at cost and thus expresses a value which is far less than its corresponding share of stockholders' equity, because our Company prepares the Consolidated Financial Statements of the Group, as a matter of fact the full correct value of the investee company's equity is expressed at that stage.

### **Reduction of the fixed asset values**

It should be noted that the tangible and intangible fixed assets were systematically depreciated/amortised taking into account the remaining estimated useful life of the assets. It should also be noted that the assumptions necessary for the writedown of certain of the fixed assets recorded in the Financial Statements do not exist.

### **Reversal of tax-driven adjustments**

In prior financial years no value adjustments nor provisions, reflected in the Income Statement, were made purely in the application of tax regulations. Therefore the elimination of prior-year tax-driven adjustments was not carried out.

### **Consolidated Financial Statements - Notice**

In 1997, PRIMA INDUSTRIE S.p.A exceeded the limits set out in Articles 27 and 46 of Decree-law No. 127 of 4/9/91 and thus became liable to prepare and lodge Consolidated Financial Statements with effect from the 1998 financial year.

Consolidated Financial Statements for the financial year 2005 have been prepared, for the first time, according to international accounting principles IAS – IFRS.



## **COMMENTS TO THE MAIN ASSET ITEMS**

(AMOUNTS EXPRESSED IN THOUSANDS OF EURO)

### **FIXED ASSETS**

Specific schedules, set out hereinafter, have been prepared for the three categories of fixed assets (intangible, tangible and financial), which show for each item the historical cost, the accumulated amortization and depreciation, the previous revaluations and writedowns, the movements during the year and the closing balances, as well as the total revaluations at the end of the year.

### **INTANGIBLE FIXED ASSETS**

- 1) The item Industrial patent and intellectual property rights includes the following at year-end:

|                              | Balance<br>12/31/05 | Balance<br>12/31/04 |
|------------------------------|---------------------|---------------------|
| Industrial patent rights     |                     |                     |
| Patents                      | 90                  | 70                  |
| Intellectual property rights |                     |                     |
| Software                     | 99                  | 90                  |
|                              |                     |                     |
| Total                        | 189                 | 160                 |

The increases recorded for this item during the year amounted to 155 thousand euro and the decreases, arising from amortization for the period, amounted to 126 thousand euro.

- 2) Concessions, licences, trademarks and similar rights: The item relates to the registration of the "Prima Industrie and symbol" trademark in the european Union and the USA. The decrease is due to the amortization charge for the 2005 financial year of approximately 1 thousand euro. The remaining cost to be amortized is approximately 4 thousand euro.
- 3) The item Other intangible fixed assets includes the following sub-items at year-end:

|                                    | Balance<br>12/31/05 | Balance<br>12/31/04 |
|------------------------------------|---------------------|---------------------|
| Leasehold improvements             |                     |                     |
| Factory 1 – Collegno               | 76                  | 103                 |
| Factory 2 – Collegno               | 126                 | 137                 |
| Modugno offices (Bari)             | 44                  | 52                  |
| Branch offices - France            | 10                  | 11                  |
| Branch offices - Spain             | 15                  | 18                  |
| Extraordinary maintenance expenses | -                   | 1                   |
|                                    |                     |                     |
| Total                              | 271                 | 322                 |

The increases during the year relate to work carried out relative to:

⇒ factory 2 - Collegno for 26 thousand euro

The amortization charge for the period totalled 77 thousand euro.

#### 4) TANGIBLE FIXED ASSETS

The increases during the year refer to purchases of:

- ⇒ general installations amounting to 32 thousand euro;
- ⇒ specific plant and operating machinery for 115 thousands of euro;
- ⇒ industrial and commercial equipment amounting to 88 thousand euro, of which 28 thousand euro is for capitalization of internal constructions;
- ⇒ ordinary office furniture, furnishings and equipment for one thousand euro and electronic office equipment for 127 thousand euro;
- ⇒ motor vehicles for one thousand euro;
- ⇒ transport for 7 thousand euro.

The decreases relate to the sale of a motor vehicle to a private person for a total value of 3 thousand euro.

The total depreciation charge during the year relative to tangible fixed assets is approximately 408 thousand euro. The provision for depreciation was utilized pursuant to the disposal of assets, as follows:

- sale of a motor vehicle for 3 thousand euro.

The value of the assets still in the books at December 31, 2005, in respect of which revaluations were made in prior periods according to the provisions of specific laws, are disclosed as required by Article 10 of Act No. 72 of 1983 and presented in a specific schedule attached to these notes.

The "Collegno 2" factory, located at No. 28 Via Antonelli, Collegno, which adjoins the main factory, was acquired under a leasing agreement in 2005. Had the transaction been accounted for according to IAS 17, the pre-tax result for the year would have been higher by 146 thousand euro and the stockholders' equity would have been higher by 588 thousand euro.

The building would have been written amongst the tangible fixed assets for an amount of 1,190 thousand euro (gross of 196 thousand euro in respect of accumulated depreciation). The land value would have been recorded at 463 thousand euro. The remaining debt would thus amount to 869 thousand euro (of which 212 thousand euro would represent the short-term debt and 657 thousand euro would represent the medium/long-term portion).

**FINANCIAL FIXED ASSETS****5) Equity investments**

The detail is as follows:

|                                                      | Balance 12/31/04 | Inc.         | Dec.        | Balance 12/03/05 |
|------------------------------------------------------|------------------|--------------|-------------|------------------|
| <b>Subsidiaries</b>                                  |                  |              |             |                  |
| Valued according to the cost method:                 |                  |              |             |                  |
| PRIMA ELECTRONICS S.p.A.                             | 1705             | -            | -           | 1,705            |
| PRIMA North America Inc.                             | 22,603           | 1,602        | -           | 24,205           |
| Prov. for writedowns PRIMA North America Inc.        | (15,617)         | -            | 2208        | (13,409)         |
| PRIMA INDUSTRIE UK Ltd                               | -                | -            | -           | -                |
| PRIMA SCANDINAVIA AB                                 | 134              | 115          | -           | 249              |
| Provision for writedowns PRIMA SCANDINAVIA AB        | (73)             | (162)        | -           | (235)            |
| PRIMA INDUSTRIE GmbH                                 | -                | 474          |             | 474              |
| Provision for writedowns                             | -                | (149)        |             | (149)            |
| Total subsidiaries                                   | 8,752            | 1,880        | 2208        | 12,840           |
| <b>Associated companies</b>                          |                  |              |             |                  |
| Valued according to the cost method:                 |                  |              |             |                  |
| Macro Meccanica SpA – in liquidation                 | 413              | -            | -           | 413              |
| Prov. for w/downs Macro Meccanica SpA – in liquidat. | (413)            | -            | -           | (413)            |
| Shenyang PRIMA Laser Machine Company Ltd             | 498              | 416          | -           | 914              |
| Provision for writedown S.P.L.M. Co Ltd              | (253)            | (75)         | -           | (328)            |
| SNK PRIMA Co.                                        | 390              | -            | -           | 390              |
| Provision for writedown SNK PRIMA Co                 | (125)            | (50)         | -           | (175)            |
| Mechanical Industries Srl                            | 105              | -            | -           | 105              |
| Provision for writedown Mechanical Industries Srl    | (105)            | -            | -           | (105)            |
| Shanghai Unity Prima Laser Machinery Co. Ltd         | 449              | -            | -           | 449              |
| Total associated companies                           | 959              | 291          | -           | 1,250            |
| <b>Other companies</b>                               |                  |              |             |                  |
| Valued according to the cost method:                 |                  |              |             |                  |
| Rambaudi Industriale S.p.A.                          | 775              | -            | -           | 775              |
| Prov. for writedown Rambaudi Industriale S.p.A.      | (775)            | -            | -           | (775)            |
| Consorzio Sintesi                                    | -                | 52-          | -           | 52               |
| Total Other companies                                | -                | 52           | -           | 52               |
| <b>Total equity investments</b>                      | <b>9,711</b>     | <b>2,223</b> | <b>2208</b> | <b>14,142</b>    |

The most significant changes that occurred during the financial year in the equity investments in subsidiary companies already held at the end of the previous financial period (which can moreover be seen in the enclosed Statement of Changes, as required by point 5 of Article 2427 of the Italian Civil Code) are the following:

- ⇒ the equity investment in PRIMA North America Inc. increased by 1,602 thousand euro as a result of the increase in capital stock, arising out of the conversion of financial receivables amounting to 2 million US dollars. As a result, the capital increased from 22 to 24 million Dollars. Because of the subsidiary's profit, it was believed necessary to partially reinstate the value of the equity investment, decreasing the provision by 2,208 thousand euro equivalent to the profit for the financial year. Consequently, the provision decreased from 15,617 thousand euro at 12/31/2004 to 13,409 thousand euro at 12/31/2005.
- ⇒ The value of the equity investment in PRIMA SCANDINAVIA AB, (PRIMA INDUSTRIE acquired 100% control of the company at the end of 2003), reflected an increase as a result of PRIMA INDUSTRIE paying an amount of 115 thousand euro into the capital account, arising out of a conversion of trade accounts receivable.  
As a result of the loss sustained by the subsidiary, PRIMA INDUSTRIE made provision for an amount of 162 thousand euro; accordingly, the provision increased from 73 thousand euro at 12/31/2004 to 235 thousand euro at 12/31/2005.
- ⇒ The equity investment in PRIMA INDUSTRIE UK Ltd (a wholly-owned subsidiary with effect from January 1, 2004) has a value of 1 pound sterling (1.47 euro), because this is the value of the capital stock subscribed for and paid to the company incorporated in terms of British Law.
- ⇒ The equity investment in PRIMA INDUSTRIE GmbH increased during the course of 2005 by approximately 474 thousand euro as a result of the increase in capital stock arising out of the conversion of financial receivables. Consequently, the Provision for writedowns raised in face of the company's previous losses was reclassified. It was no longer included amongst the item "Provisions for risks and charges" but was set off against the equity investment itself; at 12/31/05 it amounts to approximately 149 thousand euro.

Insofar as equity investments in associated companies are concerned:

- ⇒ The investment in Macro Meccanica S.p.A (placed into liquidation at the end of 1999) is carried in the Financial Statements at a nil balance because the liquidation process had still not been finalized at the end of the financial year.
- ⇒ The investment in the Chinese joint-venture Shenyang Prima Laser Machine Company that manufactures the "Platino" for the Asian market (by assembling kits sent by PRIMA INDUSTRIE) and undertakes the related marketing, was increased during the year by 416 thousand euro, (equal to 500,000 USD) as a result of an increase in the capital stock, thus going from 498 to 914 thousand euro. The related provision for writedowns increased from 75 thousand euro, equal to 50% of the value of the loss reflected in the Company's Financial Statements. This reflects the proportional stake as PRIMA INDUSTRIE S.p.A. holds 50 per cent of the capital of the joint venture. The provision thus increased from 253 to 328 thousand euro.
- ⇒ The equity investment in the Japanese joint-venture SNK Prima Co. was written down during the financial year by an amount of 50 thousand euro, equal to 50% of the loss sustained by the joint-venture. PRIMA INDUSTRIE holds a 50 percent stake in the joint-venture. The book value thus decreased from 265 to 215 thousand euro.
- ⇒ The equity investment in Mechanical Industries S.r.l., which was placed into liquidation on March 28 – 31, 2003 is reflected in the Financial Statements with a zero value.
- ⇒ The equity investment in the Chinese joint-venture Shanghai Unity Prima acquired in December 2003, remained unchanged as the company closed its first year of trading with a profit.
- ⇒ The equity investments in other businesses relate to: the investment in Rambaudi Industrial S.p.A., which is still reflected in the Financial Statements but with no value as the company was placed into liquidation by the Court of Turin on 09/30 – 10/27/2003.
- ⇒ The investment in Consorzio Sintesi, amounts to 52 thousand euro, equal to a 10% stake in the equity. This Consortium, which includes private and public businesses amongst the partners, with CNR as leader, carries out research and development and studies on industrialization technologies for the manufacturing sector.

Kindly refer to the relevant section in the report on operations for further information on the investee companies.

## 6) Financial receivables

|                                                         | Balance<br>12/31/05 | Balance<br>12/31/04 |
|---------------------------------------------------------|---------------------|---------------------|
| PRIMA North America Inc.                                | 2,246               | 3,414               |
| PRIMA INDUSTRIE GmbH                                    | -                   | 170                 |
| PRIMA SCANDINAVIA AB                                    | 27                  | 28                  |
| PRIMA INDUSTRIE UK Ltd                                  | 626                 | 654                 |
| Total receivables from subsidiaries                     | 2,899               | 4,266               |
|                                                         |                     |                     |
| Mechanical Industries S.r.l.                            | 150                 | 150                 |
| Allowance for doubtful accounts                         | (150)               | (150)               |
| Total receivables from associated companies             | -                   | -                   |
|                                                         |                     |                     |
| Taxes paid in advance - employees' severance indemnity  | 1                   | 23                  |
| Advance substitute tax - employees' severance indemnity | 8                   | 8                   |
|                                                         |                     |                     |
| Total Other Receivables                                 | 9                   | 31                  |
|                                                         |                     |                     |
| <b>Total Financial Receivables</b>                      | <b>2,908</b>        | <b>4,297</b>        |

The item includes receivables in respect of loans to subsidiaries of 2,899 thousand euro.

This item is made up as follows:

- Loan to PRIMA North America Inc.: at 12/31/05 the loan amounts to 2,246 thousand euro, equivalent to 2,650,000 USD. During the financial year the item increased by 828 thousand euro (USD 1,000,000) as a result of conversions and by 441 thousand euro owing to exchange adjustments; on the other hand, it was decreased by 1,602 thousand euro (2,000,00 USD) as a result of the conversion of capital stock and by 835 thousand euro (1,000,000 USD) due to repayments made by the subsidiary company.
- Loan to PRIMA SCANDINAVIA AB.: at 12/31/05 the loan amounts to 27 thousand euro (SEK 250.000). The item increased by 1 thousand euro compared to 12/31/04 owing to exchange adjustments.
- Loan to PRIMA INDUSTRIE UK Ltd.: at 12/31/05 the loan amounts to 626 thousand euro. The decrease of 28 thousand euro compared to 12/31/04 is due to the repayments made by the subsidiary during the 2005 financial year.
- Loan to PRIMA INDUSTRIE GmbH: this amounted to 170 thousand euro at 12/31/04; during the financial year the item increased by 475 thousand euro as a result of a conversion by the Parent Company and by 11 thousand euro due to a conversion of trade receivables. It decreased by 475 thousand euro as a result of conversion into capital stock and by 181 thousand euro as a result of repayments made by the subsidiary company. Thus the loan was extinguished as at 12/31/05.

The amount receivable from Mechanical Industries (unchanged with respect to the previous financial year) refers to lease payments that were re-charged to the company for its use of machine tools. Prima Industrie took over the lease contract as a guarantor for Macro Meccanica - in liquidation. In the light of Mechanical Industries bankruptcy, the amount due was deemed doubtful and in previous financial periods the Company increased its allowance for doubtful accounts by a similar amount.

The amount receivable at 12/31/05 for employees' severance indemnity taxes paid in advance, amounting to 1 thousand euro, relates to the amount paid by the company in 1997 and 1998 to the revenue authorities in compliance with Decree-law No. 79/97, plus accrued interest as provided for in terms of the fourth paragraph of section 2120 of the Italian Civil Code, net of the amounts utilized from 01/01/2000 (as per Decree-law No. 79/97) amounting to 22 thousand euro for the 2005 financial year. At 12/31/04 this item amounted to 23 thousand euro.

#### 7) **Other securities**

This item amounted to 258 thousand euro at year-end. This item relates to a capitalization policy, with a single premium and a duration of 5 years, signed on 09/08/04 for 247,750.01 euro. This amount was revalued at 12/31/05 by applying the annual minimum revaluation of 2.25% provided for in terms of the contract.

### **CURRENT ASSETS**

#### 8) **INVENTORIES**

At the end of the financial year the item is made up as follows:

|                                              | Balance<br>12/31/05 | Balance<br>12/31/04 |
|----------------------------------------------|---------------------|---------------------|
| Raw materials, consumables and supplies      | 7,770               | 6,984               |
| Provision for writedown of raw materials     | (1,188)             | (813)               |
| Contract work in progress                    | 3,168               | 2,766               |
| Finished products                            | 2,976               | 2,479               |
| Provision for writedown of finished products | -                   | (490)               |
|                                              |                     |                     |
| Total                                        | 12,726              | 10,926              |

The total inventories for the 2005 financial year increased by 1,800 thousand euro. The increase in raw materials and consumables amounted to 786 thousand euro. An amount of 375 thousand euro was raised to the provision for writedowns of raw materials to cover the slow rate of turnover and obsolescence.

This increase can be attributed to the increased demand for raw materials to meet the growing turnover recorded during 2005 and to the substantial number of orders in backlog at 12/31/05.

The finished products in stock increased by 497 thousand euro compared to the 2004 financial year and are made up of:

- 5 machines (1 RAPIDO, 2 DOMINOs, 1 PLATINO AND 1 SINCRONO) intended for customer demonstrations;
- 5 machines (1 Agilaser, 2 DOMINOs, 1 PLATINO and 1 SINCRONO) temporarily used for research and development;
- 2 machines (1 RAPIDO and 1 PLATINO) intended for delivery to customers at the beginning of 2006;
- 1 machine (PLATINO) for courses;
- 6 used machines (3 RAPIDOs, 3 PLATINOs) withdrawn from customers, waiting to be reconditioned and resold during 2006.

During the financial year the provision for writedowns of finished products was utilized in an amount of 490 thousand euro because the machines for which the provision had been created were sold.

The contract work in progress increased as a result of the favourable trend in demand that straddled the 2005-2006 financial year, increasing from 2,766 thousand euro at 12/31/2004 to 3,168 thousand euro at 12/31/2005.

## RECEIVABLES

### 9) Trade receivables

At the end of the year this item is made up as follows:

|                                       | Balance<br>12/31/05 | Balance<br>12/31/04 |
|---------------------------------------|---------------------|---------------------|
| Trade receivables due within one year | 25,616              | 24,837              |
| Trade receivables due beyond one year | 1,434               | 1,466               |
| Allowance for doubtful accounts       | (1,572)             | (863)               |
|                                       |                     |                     |
| Total                                 | 25,478              | 25,440              |

Trade receivables are substantially in line with the previous financial year and this feature is linked to the improved management of collections and the recovery of receivables during 2005

During the financial year the allowance for doubtful accounts was utilized in an amount of 42 thousand euro, owing to customer insolvencies or customers being subjected to bankruptcy proceedings; a further 750 thousand euro was raised to the provision to bring it into line with the overdue accounts at the end of the year and in particular, this provision refers to a dealer who is facing difficulties in fulfilling his financial obligations.

Receivables in foreign currency mainly relate to US dollars. In the face of the open positions at 12/31/05 the adjustments to the rate of exchange were made on the basis of the market exchange rate on the same date.



The geographical distribution of the trade receivables is as follows:

|                 |              |
|-----------------|--------------|
| ➤ Italy         | 16,145       |
| ➤ europe        | 7,325        |
| ➤ North America | 17           |
| ➤ R.O.W.        | <u>3,563</u> |
| Total           | 27,050       |

### **Receivables due beyond one year**

The total referred to above relates to one Australian customer, one French customer, one Israeli customer, three Spanish and three Brazilian customers who were granted extensions of time in respect of their payments, with appropriate interest being raised.

## **10) Receivables from subsidiaries**

The item in question captures receivables of a trade and financial nature and at the end of the financial year amounts to 5,537 thousand euro compared to the 5,413 thousand euro at the end of 2004.

These receivables are all payable within one year and are all recoverable.

Trade accounts receivable from subsidiaries refer to PRIMA INDUSTRIE GmbH for 1,165 thousand euro; to PRIMA North America Inc. for 967 thousand euro, to PRIMA ELECTRONICS S.p.A. for 110 thousand euro; to PRIMA SCANDINAVIA for 297 thousand euro and to PRIMA INDUSTRIE UK LTD for 2,376 thousand euro. These are entirely due to the sale of finished products and services (for a total of 4,915 thousand euro). It is emphasized that the sale of finished products to subsidiaries is carried out on normal market terms.

This item also includes:

- ⇒ The amount due by PRIMA ELECTRONICS for 600 thousand euro relative to the dividend distribution for the 2005 financial year, as shown in the pro forma Financial Statements approved by the Board of Directors on the 02/20/2006
- ⇒ the amount due by PRIMA ELECTRONICS of 20 thousand euro, arising from the tax consolidation.

In addition, at the end of the financial year the currency positions open as at 12/31/05 were adjusted to the exchange rates applicable on the financial markets on the same date. The adjustment amounted to 1 thousand euro.

## **11) Receivables from associated companies**

At 12/31/05 the item is made up of the amount receivable from the Shenyang PRIMA Laser Machine joint-venture of 2,043 thousand euro (it was 1,237 thousand euro at 12/31/04), minor amounts due by Mechanical Industries Srl for advances against an order (43 thousand euro) and 1 thousand euro due by the SNK PRIMA Co joint venture. As a result of Mechanical Industries S.r.l.'s bankruptcy the sum necessary to cover the amount claimed for advances against an order was raised to the allowance for doubtful accounts.

## 12) Tax receivables

The sum of 1,265 thousand euro is made up as follows:

|                                  | Balance<br>12/31/05 | Balance<br>12/31/04 |
|----------------------------------|---------------------|---------------------|
| Withholding taxes - Italy/abroad | 44                  | 167                 |
| VAT foreign branches             | 9                   | 18                  |
| Foreign VAT                      | 11                  | -                   |
| IRPEG credit                     | 243                 | 1,126               |
| VAT receivables                  | 322                 | 91                  |
| Group IRES advances              | 636                 | 570                 |
|                                  |                     |                     |
| Total                            | 1265                | 1,972               |

During 2005 PRIMA INDUSTRIE S.p.A. and PRIMA ELECTRONICS S.p.A. took advantage of the domestic tax consolidation (articles 117 to 129 of Presidential Decree No. 917 of December 22, 1986). As a result Group IRES advances amount to 636 thousand euro.

## 13) Prepaid taxes

The amount of 2,608 thousand euro is made up of the balance at the start of 2005, equal to 2,923 thousand euro, increased by the provision for the year of 595 thousand euro, net of decreases for use, amounting to 993 thousand euro.

## 14) Other receivables

The item is made up as follows:

|                                                       | Balance<br>12/31/05 | Balance<br>12/31/04 |
|-------------------------------------------------------|---------------------|---------------------|
| Grants to be received                                 | 1,866               | 2,293               |
| Advances to suppliers                                 | 573                 | 355                 |
| Security deposits                                     | 79                  | 76                  |
| Advances to employees                                 | 44                  | 31                  |
| Receivables for the liquidation of PRIMA INDUSTRIE BV | -                   | 1                   |
| Others                                                | 23                  | -                   |
|                                                       |                     |                     |
| Total                                                 | 2,585               | 2,756               |

These receivables are due within one year and are all collectable; thus no adjustments to their values have been made.

Other receivables decreased by 171 thousand euro compared to the previous year.

The item relating to grants to be received, refers to the PAMELA project (1,149 thousand euro), to the RESALT project (639 thousand euro) and facilities for electronic business equal to 24 thousand euro.

The item "Advances to employees" includes advances made for travel expenses.

The item "Advances to suppliers" relates to goods/services ordered but not yet delivered.

## CURRENT FINANCIAL ASSETS

### 15) Equity investments in other companies

This item amounts to 0.2 thousand euro and relates to the equity investment of 0.1 thousand euro in the cooperative society Unionfidi and the investment of 0.1 thousand euro in the cooperative society Fidindustria. This is set out in the appropriate Statement of Changes as required by article 2427, point no. 5 of the Italian Civil Code.

### 16) Treasury stock

At the end of the 2005 financial year, 8,000 treasury stock were recorded in the Financial Statements, valued at a weighted average price of 11.609 euro each, totalling 93 thousand euro.

Insofar as the weighted average price (11.9338) is greater than the average listing price at December 2005, an adjustment of approximately 2 thousand euro was made.

### 17) CASH AND CASH EQUIVALENTS

|                                     | Balance at<br>12/31/05 | Balance<br>12/31/04 |
|-------------------------------------|------------------------|---------------------|
| - Bank and postal accounts          | 7,119                  | 3,132               |
| - Cash and cash equivalents on hand | 19                     | 9                   |
|                                     |                        |                     |
| Total                               | 7,138                  | 3,141               |

The item refers to funds that are immediately available as they are deposited in current accounts or held as cash on hand within the company. The increase compared to the previous year is due to the good management of collections and to the receipt of grants for research and development provided for in previous financial years.

### 18) ACCRUED INCOME AND PREPAID EXPENSES

At December 31, this item is made up as follows:

|                                       | Balance at<br>12/31/05 | Balance<br>12/31/04 |
|---------------------------------------|------------------------|---------------------|
|                                       |                        |                     |
| Accrued income                        |                        |                     |
| Travel expenses                       | 1                      | 1                   |
| Total accrued income                  | 1                      | 1                   |
| Prepaid expenses                      |                        |                     |
| Interest on Customers' late payments  | 27                     | 92                  |
| Prepaid expenses on supplier invoices | 64                     | 52                  |
| Insurances/guarantees                 | 75                     | 70                  |
| Total prepaid expenses                | 166                    | 214                 |
| Difference on forward contracts       | 1                      | 275                 |
|                                       |                        |                     |
| Total                                 | 168                    | 490                 |

The item "Accrued income" includes travel expenses of 1 thousand euro.

The item "Prepaid expenses" amounting to 166 thousand euro, decreased by 50 thousand euro with respect to the previous year (214 thousand euro). The decrease mainly refers to the interest for 2005 relative to Sabatini transactions already in existence as at December 31, 2004.

The item "Difference on forward contracts" relates to positive differences calculated on two forward buying contracts for an amount of 950,000 USD falling due on 10/01/2006 and 10/02/2006, respectively.

### **INFORMATION REQUIRED BY ACT 72 OF 3/19/1983**

In compliance with Article 10 of Act 72 of 3/19/83 it should be noted that the company effected the revaluation allowed by the provisions of Act 576 of 12/2/75 and Act 72 of 3/19/83 and the amount was entered in the corresponding Stockholders' Equity reserve. The revaluations made in accordance with the abovementioned statutory provisions relate to the undermentioned items:

Machinery, office furniture and equipment, electronic office equipment and motor vehicles.

The revaluation of assets included in the Financial Statements as at date hereof, amounts to 17 thousand euro. The breakdown is as follows (amounts expressed in euro):

| <u>Assets</u>                              | <u>Historical cost</u> | <u>Reval. Act</u><br><u>576/75</u> | <u>Reval. Act</u><br><u>72/83</u> | <u>Total</u>  |
|--------------------------------------------|------------------------|------------------------------------|-----------------------------------|---------------|
| Machinery                                  | 8,226                  | 10,938                             | -                                 | 19,164        |
| Ordinary office furniture<br>and equipment | 11,258                 | 2,866                              | -                                 | 14,124        |
| Electronic office<br>equipment             | 11,491                 | 2,868                              | -                                 | 14,359        |
| Total                                      | <u>30.975</u>          | <u>16.672</u>                      | <u>-</u>                          | <u>47.647</u> |

The assets forming the subject-matter of the revaluation are already completely depreciated. Accordingly, the effect of the revaluation has already been exhausted.

## **COMMENTS TO THE MAIN LIABILITY ITEMS**

### **19) STOCKHOLDERS' EQUITY**

The changes in Stockholders' Equity are set out in an appendix to the Notes.

The main components of Stockholders' Equity and the related changes are described below:

### **20) CAPITAL STOCK**

Capital stock at December 31, 2005 is fully subscribed for and paid-in and consists of 4,600,000 ordinary shares with a par value 2.5 euro each, for a total of 11,500,000 euro. During the financial year there were no changes to the amount or composition of the Capital Stock.

It should also be noted that in July 2004 the *stock option plan* approved in 1999 lapsed. At present there is no other *stock-option plan* in existence.

### **21) SHARE PREMIUM RESERVE**

This item is generated by the share premium on the issue of the new stock compared to their par value of 2.5 euro. The sum of 15,665 thousand euro at 12/31/05 remains unchanged compared to the previous year.

### **22) LEGAL RESERVE**

This item amounts to 771 thousand euro and has increased by 41 thousand euro compared to 12/31/2004 as a result of the allocation of the profit for 2004 financial year.

### **23) RESERVE FOR TREASURY STOCK IN PORTFOLIO**

In the 2005 financial year, as a result of the acquisition by the company of treasury stock and in terms of Article 2357 *ter* of the Italian Civil Code the non-distributable reserve for treasury stock was adjusted to the value of the treasury stock in portfolio at 12/31/2005 and amounts 93 thousand euro.

### **24) EXTRAORDINARY RESERVE**

Compared to 12/31/2004, this item increased by 143 thousand euro due to the allocation of the profit for the 2004 financial year and by 78 thousand euro for adjustments to the reserve for treasury stock in portfolio.

## 25) **PROVISIONS FOR RISKS AND CHARGES**

The composition and movements of these provisions are as follows:

|                                             | 1/1/05 | Allocations | Utilizations | 12/31/05 |
|---------------------------------------------|--------|-------------|--------------|----------|
| Provisions for deferred taxes               | 1,198  | 680         | (395)        | 1,483    |
| Other provisions :                          |        |             |              |          |
| Provision for contractual risks and charges | 1,861  | 2,695       | (1,861)      | 2,695    |
| Provision for losses on equity investments  | 140    | 9           | (149)        | -        |
| Provision for agents' indemnity             | 88     | 8           | (68)         | 28       |
| Provision for probable taxes                | 109    |             | (109)        | -        |
| Total other provisions                      | 2,198  | 2,712       | (2,190)      | 2,723    |

The provision for deferred taxes includes the liability for deferred taxes set aside in the application of article 2427 point 14 of the Italian Civil Code and Accounting Principle No. 25.

For further information on the composition of the amount due for deferred taxes kindly refer to the note on the item Taxes.

Other provisions are mainly represented by:

- ⇒ Provision for contractual risks and charges: this relates to the provisions for the costs of completing supplies and work on products under technical warranty. The provision raised of 2,695 thousand euro substantially re-establishes the provision that was utilized during the financial year. The provision is considered sufficient in relation to the cost of completing the year's supplies.
- ⇒ Provision for losses on equity investments: includes the provision of 9 thousand euro raised to meet the losses recorded by PRIMA INDUSTRIE GmbH. During the course of the financial year the item was reclassified by placing the reserve in reduction of the value of the equity investment.
- ⇒ Provision for agents' indemnity: refers to liabilities, which could arise from the company cancelling agency contracts with Italian operators. The provision was increased by 8 thousand euro in 2005 on the basis of the rates established by the current legislation governing the relationship between agents and sales representatives and their principals. A figure of 71 thousand euro was utilised for the payments relating to the agency relationships, which were terminated during 2005.
- ⇒ Provision for probable taxes, which amounted to 109 thousand euro was utilised for the assessments, relating to the 1999, 2000 and 2001 years, settled during the financial year.

## 26) **EMPLOYEES' SEVERANCE FUND**

The changes during the year were as follows:

|                                                 |       |
|-------------------------------------------------|-------|
| <b>Balance 01/01/2005</b>                       | 2,974 |
|                                                 |       |
| Amount due and recorded to the Income Statement | 609   |
| Benefits paid during the financial year         | (145) |
| Payments to COMETA, PREVINDAI and others        | (68)  |
| <b>Balance 12/31/2005</b>                       | 3,370 |

The balance at December 31, 2005, which is recorded under financial fixed assets, is net of payments in advance made to employees in respect of severance pay and gross of payments made to tax authorities in compliance with the law. This provision represents the overall gross liability matured in favour of employees on the basis of the regulations in force at year-end and the contractual obligations for each employee.

The item Benefits paid during the financial year, is made up of 73 thousand euro paid to employees who resigned, 71 thousand euro paid in advances to employees in accordance with the regulations in force and approximately 69 thousand euro in respect of payments made to supplementary social security funds and payments for lieu taxes in accordance with Article 11 of Legislative Decree 47/2000.

During the financial year, 609 thousand euro was allocated to the provision as the ordinary portion falling due.

## **PAYABLES**

The composition of and the movements that took place during the year in the items that make up this grouping, are as follows:

## 27) **Amounts due to banks**

The amounts due to Banks are made up as follows:

|                                                                                 | Balance<br>12/31/05 | Balance<br>12/31/04 |
|---------------------------------------------------------------------------------|---------------------|---------------------|
| Interest payable                                                                | 1                   | 3                   |
| Advances to branches                                                            | 159                 | 116                 |
| Medium/long-term loans                                                          | 13,168              | 11,894              |
| Amounts due to Mediocredito for dishonoured<br>Sabatini bills - Gugole Customer | 40                  | -                   |
|                                                                                 | 13,368              | 12,013              |

At the end of the 2005 financial year there are no overdrawn current accounts. This reflects the improvement in the Company's financial position.

Loans from credit institutions are made up of:

- ⇒ Loan of 2,582 thousand euro from Banca Mediocredito on 05/15/01 to be repaid by eight six-monthly instalments commencing on 03/31/03 until 09/30/06 at a floating rate (up to 09/30/01 at a rate of 5.39 per cent per annum; for the six month periods that follow, the rate will be the 6-month Euribor rate plus a spread of 0.9 per cent). The residual amount of 646 thousand euro, is included in the item short-term loans.
- ⇒ A loan of 2,000,000 US dollars equivalent to 1,695 thousand euro from San Paolo IMI advanced on 12/15/2004 and repayable after 18 months less one day and bearing interest at the LIBOR rate plus 1 per cent. This is included in the item short-term loans.
- ⇒ A loan from San Paolo IMI for 2,309 thousand euro with a pre-amortization period until 07/01/03. This is a research loan released from the special fund for Applied Research established by Act 1089/1968, in accordance with Act No. 46/82 and made on behalf of the M.U.R.S.T. The loan is repayable in 12 half-yearly deferred instalments and bears interest at 1 per cent per six months. The principal portion falling due in 2006 is 471 thousand euro, which represents the short-term component of the loan. The residual debt amounting to 480 thousand euro represents a medium to long-term liability.
- ⇒ A loan from Mediocredito Intesa BCI for an initial amount of 5 million euro with an annual interest rate of 4.45 per cent until 09/30/02 and thereafter for each successive period at the EURIBOR three-month rate + 0.90 per cent. The loan will be repaid by way of 16 quarterly instalments. In 2006, four instalments of 1,250 thousand euro will be repaid. The residual debt amounting to 312 thousand euro represents the midium/long-term component.
- ⇒ A loan granted by the Cassa di Risparmio di Parma e Piacenza for an amount of 1,200 thousand euro. The loan bears interest at the average EURIBOR rate of the preceding three months increased by 1.1 points and is repayable in 36 monthly instalments. The residual debt of 243 thousand euro is included in the short term portion.
- ⇒ A loan of 2 million euro secured from the Unicredit Banca d'Impresa for a period of 18 months less one day, bearing interest at the Euribor rate plus a spread of 1.25. The capital is to be repaid in a single instalment on 10/22/2006 and interest is repayable quarterly. The abovementioned loan was used to reduce the exposure of the subsidiary, Prima North America Inc. and the related signature loan in an amount of USD 2,300,000. The loan is entirely included in the short –term portion.
- ⇒ Loan granted by Banco di Sicilia for 2,000,000.00 euro. The loan is repayable in 12 quarterly instalments commencing on 09/30/2004 and the nominal annual interest rate payable is equal to the monthly average 6-month Euribor increased by an annual spread of 1,625 points. The principal portion falling due in 2006 is 679 thousand euro, which represents the short-term component of the loan. The residual debt amounting to 350 thousand euro is to be considered as a medium to long-term liability.



- ⇒ A loan up to a maximum of 2,065,000.00 euro granted by the “Società Italiana per le Imprese all'Estero – SIMEST” (Italian Company for Overseas Businesses) to be used for commercial penetration of the U.S. market. After a pre-amortization stage up to 2006, the repayment plan provides for the refund of the amount paid out, in the 5 years that follow, by way of six-monthly deferred repayments at an annual effective rate of 1.36%. The first tranche disbursed in 2004 includes the short-term portion of 48 thousand euro and a medium/long-term portion amounting to 430 thousand euro. During 2005 a second tranche of 842 thousand euro was disbursed, divided into a short-term portion of 84 thousand euro and a medium/long-term portion of 758 thousand euro.

The following loan was discharged during the course of the financial year:

- Mediocredito (Umbria) contracted during 2000 for an amount of 775 thousand euro;

During the financial year the Company had access to the following additional finance:

- ⇒ A loan of 2 million euro granted by Fortis Bank in January 2005, for a period of 18 months less one day, bearing interest at the Euribor 6-months rate plus a spread of 1.30. The capital is to be repaid in three equal six-monthly instalment. The remaining debt of 1,333 thousand euro is to be considered as a short-term loan.
- ⇒ A loan of 1.5 million euro granted by Banca Intesa s.p.a on 05/19/2005 for a period of 18 months less one day, bearing interest at the Euribor 3-month + 0,75% rate. The capital is to be repaid in a single instalment on 11/18/2006. The loan is to be considered entirely as short-term.
- ⇒ A loan of 1.5 million granted by Banca Popolare di Milano on 05/20/2005 for a period of 18 months less one day bearing interest at the Euribor 3-month rate plus a spread of 0.80 and repayable by way monthly instalments. The remaining debt of 890 thousand euro is to be considered as a short-term loan.

An amount of 40 thousand euro is included amongst the amounts due to banks. The sum relates to the dishonoured bill relative to a Sabatini transactions entered into with Gugole Costruzioni S.r.l. during the 2002 financial year.

## 28) Amounts due to other lenders

At 12/31/05 the amounts due to other lenders consisted of:

- ⇒ Loan of 726 thousand euro from the Ministry of Trade and Industry, in terms of Act 46/82, which established a special revolving fund for technological innovation. This loan has a ceiling of 1,069 thousand euro and is for 15 years. Five of the fifteen years are a pre-amortization period bearing interest at a rate of 0.9825 per cent per annum. The remaining 10 years are for amortisation of the loan at a rate of 3.275%. The short-term component of the loan amounts to 86 thousand euro, whereas the residual medium/long-term liability amounts to 640 thousand euro.

## 29) Advances

This item includes advances from customers against uncompleted orders, for 473 thousand euro as well as down payments from customers in confirmation of orders for 363 thousand euro (total indebtedness at 12/31/2005: 836 thousand euro).

This item decreased by 80 thousand euro with respect to the end of the previous year, when it totalled 916 thousand euro.

## 30) Trade accounts payable

In comparison with the previous financial year, 2005 reflects trade indebtedness that grew from 14,258 thousand euro at 12/31/04 to 15,761 thousand euro at 12/31/05, with an increase of 1,503 thousand euro.

The increase in the item reflects the increased volume of production and the careful management of working capital.

The details are as follows:

|                                 | Balance<br>12/31/05 | Balance<br>12/31/04 |
|---------------------------------|---------------------|---------------------|
| Trade accounts payable          | 13,866              | 12,150              |
| Exchange adjustment - suppliers | 14                  | (49)                |
| Invoices to be received         | 1,949               | 2,150               |
| Debit notes to be issued        | (68)                | (76)                |
| Refunds to customers            | -                   | 83                  |
|                                 |                     |                     |
|                                 | 15,761              | 14,258              |

Trade accounts payable (inclusive of the exchange adjustments) are geographically divided as follows:

|          |           |
|----------|-----------|
| ➤ Italy  | 10,303    |
| ➤ europe | 3,125     |
| ➤ U.S.A. | 379       |
| ➤ R.O.W. | <u>59</u> |
|          | 13,866    |

## 31) Amounts due to subsidiaries

The amounts due to subsidiaries total 4,765 thousand euro as against the 4,122 thousand euro of the previous financial year.

Commercial supplies by these companies are conducted on normal market terms.

The financial payables relate to a loan of 18 months less one day granted by the subsidiary PRIMA ELECTRONICS SpA to PRIMA INDUSTRIE S.p.A for an amount of 1,500 thousand euro bearing interest at the Euribor rate + 0.50%, which falls due in March 2007.

On the other hand, the remaining balance of 6 thousand euro, represents an amount due to PRIMA INDUSTRIE UK Ltd by the PRIMA UK *branch*, which is no longer operative.

The debt position relative to trade payables is substantially unchanged compared to the 2004 financial year (going from 2,637 thousand euro at 12/31/2004 to 2,620 thousand euro at 12/31/2005).

The liabilities of a commercial nature due to the subsidiaries are as follows:

- PRIMA ELECTRONICS S.p.A - 1,076 thousand euro
- PRIMA North America Inc. - 1,491 thousand euro
- PRIMA INDUSTRIE GmbH - 15 thousand euro
- PRIMA SCANDINAVIA AB - 19 thousand euro
- PRIMA INDUSTRIE UK Ltd. - 18 thousand euro

Moreover, at the end of 2005, the company had yet to receive invoices for 243 thousand euro of which 219 thousand euro is from PRIMA NORTH America Inc., 13 thousand euro is from PRIMA INDUSTRIE UK and 10 thousand euro is from PRIMA INDUSTRIE GmbH.

Moreover the currency positions open at 12/31/05 were adjusted to the exchange rates applicable on the financial markets at the same date; the value of the adjustment amounted to 30 thousand euro.

### 32) Taxes payable

This item is made up as follows:

|                                     | Balance<br>12/31/05 | Balance<br>12/31/04 |
|-------------------------------------|---------------------|---------------------|
| Amounts due to tax authorities for: |                     |                     |
| IRPEF withholdings                  | 313                 | 384                 |
| VAT foreign branches                | 122                 | 253                 |
| Tax authorities for group IRES      | 656                 | 622                 |
| Other taxes and dues                | 320                 | 76                  |
| <b>Total</b>                        | <b>1,411</b>        | <b>1,335</b>        |

IRPEF deducted in December was duly paid to the tax authorities in January 2006. For more information, kindly refer to the section on Income taxes. As already set out in the item relating to tax receivables, the tax payables for IRES amounting to 656 thousand euro arises out of taking part in the domestic tax consolidation.

### 33) Amounts due to provident and social security institutions

This item is made up as follows:

|                                                                       | Balance<br>12/31/05 | Balance<br>12/31/04 |
|-----------------------------------------------------------------------|---------------------|---------------------|
| Amounts due to INPS                                                   | 477                 | 463                 |
| Amounts due to INAIL                                                  | 5                   | 4                   |
| Amounts due to PREVINDAI                                              | 25                  | 18                  |
| Amounts due to ENASARCO                                               | 6                   | 6                   |
| Amounts due to Social security institutions for deferred remuneration | 348                 | 260                 |
| <b>Total</b>                                                          | <b>861</b>          | <b>751</b>          |

The item Amounts due to Social Security Institutions for deferred remuneration, refers to the contributions relative to leave provided for but not taken, the thirteenth cheque and other incentives due at 12/31/05 but not yet paid.

All the other items refer to the liability due to social security institutions for compensation paid in December (INPS, INPDAI) or in the last quarter of the year (PREVINDAI, ENASARCO) or as the balance for the year (INAIL).

### 34) **Other payables**

This item is made up as follows:

|                                                  | Balance<br>12/31/05 | Balance<br>12/31/04 |
|--------------------------------------------------|---------------------|---------------------|
| Amounts due for insurance policy adjustments     | 73                  | 74                  |
| Amounts due for deferred remuneration            | 1,139               | 930                 |
| Amounts due for Directors' remuneration          | 52                  | 9                   |
| Amts due as refunds to staff for travel expenses | 32                  | 63                  |
| Salaries to be paid                              | 33                  | -                   |
| Others                                           | 20                  | 12                  |
|                                                  |                     |                     |
|                                                  | 1,349               | 1,088               |

The amount due for deferred remuneration relates to the charges due but not yet paid out for the balance of leave not taken, the variable portion of the production bonus and business incentives earned at 12/31/2005.

The remuneration payable to directors refers to fees for 2005 and those of prior periods still to be paid.

The item "Amounts due as refunds to staff for travel expenses" also includes corporate credit card charges to be received.

### 35) **ACCRUED EXPENSES AND DEFERRED INCOME**

At December 31, 2005 this item, compared to December 31, 2004, is made up as follows:

|                                | Balance<br>12/31/05 | Balance<br>12/31/04 |
|--------------------------------|---------------------|---------------------|
| Accrued expenses               |                     |                     |
| Interest on MICA loan (Act 46) | 10                  | 11                  |
| Interest on UNICREDIT loan     | 11                  | 15                  |
| Interest on Mediocredito loan  | 5                   | 10                  |
| Branch expenses                | -                   | 7                   |
| Bank charges                   | 1                   | 6                   |
| Other loans                    | 42                  | 4                   |
| Sundry items                   | -                   | 1                   |
| Total accrued expenses         | 69                  | 54                  |

|                                          |     |     |
|------------------------------------------|-----|-----|
| Deferred income                          |     |     |
| Interest earned on discount transactions | 27  | 92  |
| Customer maintenance contracts           | 269 | 185 |
|                                          |     |     |
| Total deferred income                    | 296 | 277 |
|                                          |     |     |
| Difference on forward contracts          | 6   | -   |
|                                          |     |     |
| Total                                    | 371 | 331 |

Interest on discount transactions decreased owing to the (pro rata) decrease in the transactions existing at 12/31/04.

The item "Differences on forward contracts" relates to two purchase contracts totalling 950,000 USD falling due on 01/10/2006 and 02/10/2006 respectively.

### **MEMORANDUM ACCOUNTS**

#### **36) Unsecured guarantees given**

Guarantees given on behalf of subsidiaries – The sum of 1,695 thousand euro refers to a guarantee given to a credit institution that provided a credit line to PRIMA North America Inc. The increase of 227 thousand euro compared to the previous financial year, is due to the difference in the rate of exchange of the euro/Dollar on an existing guarantee of 2,000,000.00 U.S. dollars.

Guarantees given on behalf of others – These amount to 36 thousand euro and refer to two guarantees: one (for 3 thousand euro), given to Consorzio Garanzia Fidindustria, of which Prima Industrie is a member and one to San Paolo IMI to meet a contract entered into with a Chinese customer (for 33 thousand euro). The increase of 4 thousand euro arises from the exchange adjustment on the guarantee to Sanpaolo IMI.

### 37) Commitments

#### Interest Rate Swap Contracts

On 05/30/03 an Interest Rate Swap contract was entered into with Banca Akros. The contract is on the following terms and conditions:

- Starting date: 06/03/03
- Final expiry: 06/05/06
- Periodical expiry: quarterly
- Capital: 5,000,000 euro
- Rate 1:
  - 1st year: 2.2
  - 2nd year : 2.5
  - 3rd year : 2.75
  - Basis: ACT/360
- Rate 2:
  - Euribor 3-month, for foreign currency applicable at the starting date of each period
  - Basis: ACT/360

At the expiry of each quarterly period the difference between the amount resulting from the application of rate 1 and the amount resulting from the application of rate 2 will be paid by Banca Akros to PRIMA INDUSTRIE, if the difference is a negative one. Vice-versa, Prima Industrie will pay Banca Akros if the difference is a positive one.

During 2005, the effect of this transaction on the Income Statement amounted to 24 thousand euro against PRIMA INDUSTRIE.

On the 06/09/04 in light of a loan of € 2,000,000.00 an Interest Rate Swap contract was entered into with Banco di Sicilia. The contract is on the following terms and conditions:

- Starting date: 06/30/04
- Final expiry: 06/30/07
- Periodical expiry: quarterly
- Capital: euro 2,000,000.00
- Rate 1:
  - 1st year: 2.5
  - 2nd year: 3.75
  - 3rd year: 4.25
  - Basis: ACT/360
- Rate 2:
  - Euribor 3-month, for foreign currency applicable 2 working days preceding the start of each period.
  - Basis: ACT/360

At the expiry of each quarterly period the difference between the amount resulting from the application of rate 1 and the amount resulting from the application of rate 2 will be paid by Banco di Sicilia to PRIMA INDUSTRIE, if the difference is a negative one. Vice-versa, Prima Industrie will pay Banco di Sicilia if the difference is a positive one. During 2005, the effect of this transaction on the Income Statement amounted to 13 thousand euro against PRIMA INDUSTRIE.

Commitments in respect of currency transactions -The sum of 809 thousand euro refers to two forward buying contracts totalling of USD 950,000. This transaction was effected to protect certain debit commercial balances of PRIMA INDUSTRIE vis-a-vis PRIMA North America Inc. for the due dates 01/10/04 and 02/10/06.

Commitments for financial lease instalments-These total 1,006 thousand euro (compared with 1,336 thousand euro in the previous financial year) and refer to commitments for financial lease instalments: they relate to contracts for electronic office equipment (for 64 thousand euro), and to the factory at No. 28, Via Antonelli (for 942 thousand euro). The commitments represent the total value of the lease instalments falling due to the lessors including the final redemption values provided for in the contracts, but excluding the instalments already paid. Lease instalments falling due by year are as follows:

Office equipment

|      |    |                                                 |
|------|----|-------------------------------------------------|
| 2006 | 52 | thousand euro + 1 thousand euro for redemptions |
| 2007 | 10 | thousand euro + 1 thousand euro for redemptions |

---

|       |    |  |
|-------|----|--|
| Total | 64 |  |
|-------|----|--|

Factory at No. 28 Via Antonelli

|      |     |                                                  |
|------|-----|--------------------------------------------------|
| 2006 | 222 | thousand euro                                    |
| 2007 | 222 | thousand euro                                    |
| 2008 | 222 | thousand euro                                    |
| 2009 | 111 | thousand euro + 165 thousand euro for redemption |

---

|       |     |  |
|-------|-----|--|
| Total | 942 |  |
|-------|-----|--|

**38) Contingencies for discounted bills**

This shows the value of bills signed by customers for sales made pursuant to the Sabatini Act guaranteeing recourse (pro solvendo) on claims, plus a discount operation pro solvendo on bills signed by an Australian customer, who has been granted an extended two-year payment period.

Consequently, the overall contingency at the end of the financial year amounted to 923 thousand euro compared to 1,764 thousand euro in 2004.

During the financial year a pro solvendo Sabatini transaction was extinguished.

Consequently, the transactions still in existence relate to 7 customers.

This includes three transactions, which will be finalised during 2006 and four which will be concluded in 2007.

### 39) Others

At December 31, 2005 the item includes the following other memorandum accounts:

Commitments to repurchase from customers and third parties – These total 2,029 thousand euro (they were 3,090 thousand euro at 12/31/2004) and refer to repurchase commitments signed by the company in favour of leasing companies for sales made to customers.

This type of guarantee is issued by the company to assist the customer in obtaining financing where the he cannot offer independent guarantees for the transaction to the third party lender.

The repurchase commitment is usually given for values that do not exceed market values at the time of the possible excussion in terms of the guarantee.

Company assets held by third parties – At December 31, 2005 these goods totalled 2,444 thousand euro (2,328 thousand euro in 2004). They relate to the following:

- materials and products at branch warehouses for 924 thousand euro;
- spare parts at customers for 148 thousand euro;
- materials on deposit/for processing at suppliers amounting to 1,056 thousand euro;
- semifinished and finished products at third parties amounting to 316 thousand euro.

The finished products are made up of 1 used Platino 1530 machine (withdraw from a customer as against the sale of a new machine) located at the customer's factory and 1 Domino that is located at Linde's show room (the european Leader in the production of gas for laser machines), used for demonstration purposes.

These assets are included in the final inventory balance in the Financial Statements.

Guarantees given by third parties for our account – The sum of 7,301 thousand euro (6,145 thousand in 2004) is made up of bank guarantees issued for bank loans in favour of the subsidiary, PRIMA North America Inc. (totalling 3,814 thousand euro); bank guarantees in favour of customers for advances against orders and for guarantee purposes (guarantees given within the limits of the receipts made by the same customers) to a forfeiter within the scope of a SACE transaction, as well as by guarantees issued to the supplier Rofin Sinar and other minor suppliers.

During 2005 as against the disbursement of the second tranche of the loan, the guarantees issued to SIMEST by N. 3 Consorzi Fidi increased and a fourth part was added, issued by a credit institution.

It should also be noted that the company issued guarantees in favour of the real estate companies that own the factories to which the company transferred the divisions of the subsidiary, Prima North America Inc. in 2003. More precisely:

- a guarantee in favour of Oxford Investment LLC for the lease agreement in respect of the premises located on East Main Street, Chicopee River Business Park, Chicopee, Massachusetts;
- a guarantee in favour of OIRE Minnesota LLC for the lease agreement in respect of the factory situated at 8600 109<sup>th</sup> Avenue North, Champlin, Minnesota.



## **COMMENTS ON THE MAIN INCOME STATEMENT ITEMS**

### **VALUE OF PRODUCTION**

#### **40) REVENUES FROM SALES AND SERVICES**

Revenues from the sales of goods are made up as follows:

|                             | TOTAL  |     | ITALY  |    | EUROPE |    | R.O.W. |    | N. AMERICA |   |
|-----------------------------|--------|-----|--------|----|--------|----|--------|----|------------|---|
|                             | Amt    | %   | Amt    | %  | Amt    | %  | Amt    | %  | Amt        | % |
| LASER SYSTEMS               | 60,790 | 83  | 18,365 | 25 | 26,451 | 36 | 11,610 | 16 | 4,364      | 6 |
| CUSTOMER AND OTHER SERVICES | 11,926 | 17  | 4,660  | 7  | 5,485  | 8  | 1,054  | 1  | 727        | 1 |
| Total                       | 72,716 | 100 | 23,025 | 32 | 31,936 | 44 | 12,664 | 17 | 5,091      | 7 |

During the 2005 financial year revenues increased by 10% compared to the 65,913 thousand euro in the previous financial year with a strong increase recorded in the total number of machines delivered, even though the mix of products was more directed towards the two-dimensional systems, which are characterized by income (and profitability) that are on average lower.

#### **41) CHANGES IN INVENTORIES OF WORK IN PROGRESS, SEMIFINISHED AND FINISHED PRODUCTS AND CONTACT WORK IN PROGRESS**

At 12/31/2005, the value of finished products in inventory increased by 497 thousand euro (2,976 thousand euro at the year-end compared to 2,479 thousand euro at the beginning of the year).

During the year, no provisions were raised, but the provision for writedowns of finished products, of 490 thousands euro as at 12/31/2004, was totally used.

Contract work in progress increased by 403 thousand euro (from 2,765 thousand euro to 3,168 thousand euro).

#### 42) INCREASES IN FIXED ASSETS FOR INTERNAL WORK

During 2005 the following costs were capitalized under the item, "Tangible fixed assets":

|                     | 2005 | 2004 |
|---------------------|------|------|
| Light constructions | -    | 55   |
| Equipment           | 28   | 34   |
|                     |      |      |
| Total               | 28   | 89   |

#### 43) OTHER INCOME AND REVENUES

This item is made up as follows:

|                                                                   | 2005  | 2004  |
|-------------------------------------------------------------------|-------|-------|
| Grants related to assets                                          | 1,473 | 1,492 |
| Insurance refunds                                                 | 94    | 12    |
| Services rendered and costs recharged to PRIMA ELECTRONICS        | 116   | 103   |
| Non-operating profits and gains on disposals                      | 902   | 581   |
| Services rendered and costs recharged to PRIMA North America Inc. | -     | 10    |
| Sundry income                                                     | 135   | 201   |
|                                                                   |       |       |
| Total other income and revenues                                   | 2,720 | 2,399 |

"Grants related to assets" recorded in the Income Statement in 2005 relate to the accrued portions of facilitated loans for research and development, confirmed in the financial year:

In particular, the amount accrued refers:

- to the PAMELA project, for 756 thousand euro;
- to the RESALT project, for 693 thousand euro,

The grants also include the facilities provided for in relation to electronic sales of 24 thousand euro.

The non-operating profits (900 thousand euro) mainly refer to the positive adjustments on prior year costs and revenues accruals.

Sundry income (equal to 135 thousand euro) refers to the rentals received on the real estate leased to PRIMA INDUSTRIE UK for 35 thousand euro and other minor amounts totalling 69 thousand euro.

## **COSTS OF PRODUCTION**

### **44) PURCHASE OF RAW MATERIALS, CONSUMABLES AND SUPPLIES**

This item is made up as follows:

|                          | 2005   | 2004   |
|--------------------------|--------|--------|
| Raw materials            | 39,565 | 34,860 |
| Consumables and supplies | 720    | 724    |
| Other purchases          | 200    | 237    |
|                          |        |        |
| Total                    | 40,485 | 35,821 |

In particular, raw materials include:

|                                                                     | 2005   | 2004   |
|---------------------------------------------------------------------|--------|--------|
| Laser generators and parts                                          | 14,308 | 10,307 |
| Numeric controls and parts                                          | 2,622  | 2,389  |
| Completed sub-systems and mechanical components according to design | 14,446 | 13,958 |
| Commercial components and others                                    | 8,189  | 8,206  |
|                                                                     |        |        |
| Total                                                               | 39,565 | 34,860 |

The increase can be attributed to the greater turnover achieved in the financial year.

### **45) SERVICE COSTS**

This item can be detailed as follows:

|                                                        | 2005   | 2004   |
|--------------------------------------------------------|--------|--------|
| Outsourcing costs                                      | 5,444  | 5,297  |
| Travel expenses                                        | 1,919  | 1,800  |
| Technical, legal, tax & administrative consulting fees | 1,703  | 2,017  |
| Freight                                                | 1,683  | 1,145  |
| Commissions paid                                       | 1,314  | 932    |
| Advertising and promotion                              | 272    | 401    |
| Electricity, telephone, etc.                           | 524    | 501    |
| Insurance                                              | 331    | 257    |
| External maintenance expenses                          | 480    | 427    |
| Board of Directors' fees                               | 384    | 325    |
| Statutory auditors' fees                               | 108    | 80     |
| Temporary work                                         | 207    | 155    |
| Others                                                 | 915    | 1,196  |
|                                                        |        |        |
| Total                                                  | 15,284 | 14,533 |

As regards outsourcing costs in 2004, an increase of 147 thousand euro occurred, because of the higher turnover generated.

Consultancy costs include technical consulting fees, (R&D projects), amounting to 789 thousand euro business consultancy fees totalling 103 thousand euro, and administrative and legal fees (lawyers, notaries, auditors, tax advisors etc.) amounting to 811 thousand euro.

The most significant expenses for services included in the item "Others" are entertainment expenses of 76 thousand euro, translations (36 thousand euro), cleaning expenses (124 thousand euro) and royalties (53 thousand euro), agents' commissions (37 thousand euro), staff recruitment (17 thousand euro), Enasarco (12 thousand euro), annual expenses for trademarks and patents (16 thousand euro) and services for labourers (111 thousand euro).

#### 46) **LEASES AND RENTALS**

This item is detailed as follows:

|                                  | 2005  | 2004  |
|----------------------------------|-------|-------|
| Rent                             | 306   | 338   |
| Motor vehicle and sundry leasing | 271   | 285   |
| Sundry rental                    | 330   | 279   |
| Leasing for Factory 2            | 202   | 197   |
|                                  |       |       |
| Total                            | 1,109 | 1,099 |

The adoption of the financial method of accounting for assets under leasing contracts would have meant accounting for the interest on the capital and the portion of depreciation on the value of the assets, (commensurate with the estimated useful life of the assets), in addition to recording the asset in the Balance Sheet and the residual amount payable in the liabilities.

This accounting treatment would not have resulted in any significant positive effects on the net result (see the effect in the comment on the Fixed Assets section).

Sundry rental includes the costs incurred for the hiring of the staff car amounting to 231 thousand euro, in addition to minor items totalling 99 thousand euro.

The item "Leasing for Factory 2" refers to the nine-year leasing contract signed in 2000 for the use of the manufacturing premises situated at No. 28 Via Antonelli, adjoining the main factory.

#### 47) PERSONNEL COSTS

Personnel costs rose from 12,847 thousand in 2004, to 14,249 thousand euro in 2005. The increase is due to the growth in the number of staff members. During the year the Company hired a number of new employees, although it strove to keep the increase in costs to a minimum.

Furthermore, the Company operates in a high-tech sector with staff more specialized on average and thus the cost is higher than the average industry *standards*.

Changes in the number of employees by category (Collegno production facility and secondary office in Bari) are detailed below:

|                        | 12/31/04   | Hired     | Ceased<br>employment | Promotions    | 12/31/05   | Average<br>for the<br>year |
|------------------------|------------|-----------|----------------------|---------------|------------|----------------------------|
| EXECUTIVES             | 13         | -         | (1)                  | -             | 12         | 12                         |
| OFFICERS               | 7          | -         | -                    | +2            | 9          | 7.5                        |
|                        | 11         | 2         | (2)                  | +3 (2)        | 12         | 11                         |
| JUNIOR<br>MANAGERS     |            |           |                      |               |            |                            |
|                        | 142        | 10        | (6)                  | +2 (1)        | 147        | 141                        |
| OFFICE<br>WORKERS      |            |           |                      |               |            |                            |
|                        | 1          | -         | -                    | +2            | 3          | 1.5                        |
| SPECIALIZED<br>WORKERS |            |           |                      |               |            |                            |
|                        | 60         | 14        | (2)                  | (2)           | 70         | 65                         |
| PRODUCTION<br>WORKERS  |            |           |                      |               |            |                            |
| <b>Total</b>           | <b>234</b> | <b>26</b> | <b>(13)</b>          | <b>+9 (5)</b> | <b>251</b> | <b>238</b>                 |

Staff members employed at the branches have increased by 2 resources, at the office in Spain. The total numbers of employees at the branches amounts to 25 (7 at the Branch in France, 15 in Spain and 3 in Switzerland).

The workforce has increased by approximately 9%.

#### 48) AMORTIZATION/DEPRECIATION

##### Amortization of intangible fixed assets

Reference should be made to the applicable schedule showing changes in intangible fixed assets.

##### Depreciation of tangible fixed assets

Reference should be made to the applicable schedule showing changes in tangible fixed assets.

#### 49) WRITEDOWN OF TRADE RECEIVABLES INCLUDED IN CURRENT ASSETS AND WRITEDOWN OF CASH AND CASH EQUIVALENTS

During the financial year, the company raised 750 thousand euro to the allowance for doubtful accounts. The provision was made taking into account the extent to which the receivables in portfolio could be collected. The provision is made up of a portion which is tax deductible amounting to 171 thousand euro and a portion which is not tax deductible amounting to 579 thousand euro. The provision accounted in 2005, mainly refers to a dealer in financial straits.

#### 50) CHANGES IN INVENTORIES OF RAW MATERIALS, CONSUMABLES, SUPPLIES AND MERCHANDISE

Inventories of raw materials, consumables and supplies increased during the financial year by 786 thousand euro. This increase is due to the requirements for raw materials, consumables and supplies necessary to meet the growing turnover. A provision of 375 thousand euro was raised.

#### 51) PROVISIONS FOR RISKS

This item includes the provisions made during the financial year, net of utilizations, as detailed below:

|                                                                     | 2005    | 2004    |
|---------------------------------------------------------------------|---------|---------|
| Provision for contractual risks and charges                         | 2,695   | 1,861   |
| Utilization of the 2003 provision for contractual risks and charges | (1,861) | (2,001) |
| Provision for losses by investees:                                  |         |         |
| ⇒ PRIMA INDUSTRIE GmbH                                              | -       | 9       |
| Provision for potential liabilities:                                |         |         |
| ⇒ Provision for agents' customer indemnity                          | 8       | 9       |
|                                                                     |         |         |
| Total                                                               | (842)   | (122)   |

#### 52) SUNDRY OPERATING EXPENSES

This item is made up as follows:

|                                              | 2005 | 2004 |
|----------------------------------------------|------|------|
| Non-operating losses and losses on disposals | 562  | 317  |
| Penalties from customers                     | 1    | 32   |
| Taxes and dues other than those on income    | 46   | 44   |
| Non-deductible gratuities and costs          | 107  | 127  |
| Association dues                             | 60   | 72   |
| Branch taxes                                 | 17   | 17   |
| Others                                       | 58   | 50   |
|                                              |      |      |
| Total                                        | 851  | 659  |

The non-operating losses mainly relate to costs pertaining to previous financial years, for which incorrect provisions in respect of the amount were made or to the unexpected non-existence of components of the Balance Sheet assets, related to the typical business of the company.

The item "Sundry operating expenses" pertains to corporate expenses totalling 47 thousand euro, deductible gratuities of 3 thousand euro and other minor items of approximately 8 thousand euro.

## **FINANCIAL INCOME AND EXPENSES**

### **53) INCOME FROM EQUITY INVESTMENTS**

The total amount of 600 thousand euro refers to the dividend from PRIMA ELECTRONICS on the 2005 result, which dividend is receivable in 2006.

The dividend for the 2005 financial year approved by PRIMA ELECTRONICS S.p.A. 's stockholders' meeting will be paid out with effect from May 15, 2006.

### **54) OTHER FINANCIAL INCOME FROM RECEIVABLES INCLUDED IN FINANCIAL FIXED ASSETS**

These refer to interest due on loans granted by the Parent Company PRIMA INDUSTRIE, to the subsidiaries PRIMA North America Inc. in an amount of 166 thousand euro, PRIMA SCANDINAVIA AB for 1 thousand euro and PRIMA INDUSTRIE UK Ltd. for 23 thousand euro. In the previous year these totalled 101 thousand euro.

### **55) OTHER FINANCIAL INCOME**

This item is made up of the following income:

|                                                             | 2005 | 2004 |
|-------------------------------------------------------------|------|------|
| Interest income from customers                              | 330  | 433  |
| Interest earned on securities/premiums on forward contracts | 6    | 15   |
| Interest income from banks and others                       | 68   | 18   |
|                                                             |      |      |
| Total                                                       | 404  | 466  |

Interest income from customers includes the 2005 portion of interest relating to the existing Sabatini transactions, with recourse.

## **INTEREST AND OTHER FINANCIAL EXPENSES**

### **56) INTEREST AND OTHER FINANCIAL EXPENSES DUE TO SUBSIDIARIES**

The amount of approximately 40 thousand euro relates entirely to the interest accrued on a loan of 1,500 thousand euro made by PRIMA ELECTRONICS to the parent company PRIMA INDUSTRIE.

## 57) **OTHER INTEREST AND EXPENSES**

The item is made up as follows:

|                                                           | 2005  | 2004  |
|-----------------------------------------------------------|-------|-------|
| Interest paid on bank borrowings                          | 2     | 50    |
| Interest paid on discount transactions under Sabatini Act | 313   | 422   |
| Other bank charges                                        | 221   | 259   |
| Interest paid on medium/long-term payables                | 505   | 365   |
| Interest paid on factoring                                | -     | -     |
| Others                                                    | 14    | 30    |
|                                                           |       |       |
| Total                                                     | 1,055 | 1,126 |

Interest paid on medium/long-term payables includes interest on the loans granted by MICA (12 thousand euro), IMI (26 thousand euro), Mediocredito Umbro (1 thousand euro), Banca Mediocredito (30 thousand euro), Banca Intesa BCI Mediocredito (72 thousand euro), Cassa Risparmio Parma e Piacenza (14 thousand euro), Unicredit (66 thousand euro) Banco di Sicilia (55 thousand euro), SIMEST (12 thousand euro), Fortis Bank (58 thousand euro), Banca Popolare di Milano (23 thousand euro) and Banca Intesa (27 thousand euro).

The item "Others" mainly refers to charges paid to financial institutions (11 thousand euro) and to negative differences on the "*Interest rate swap*" hedging transactions (38 thousand euro).

## 58) **GAINS AND LOSSES ON EXCHANGE**

The loss of 11 thousand euro is made up as follows:

|                               |       |
|-------------------------------|-------|
| Positive exchange differences | 721   |
| Negative exchange differences | (732) |
|                               | <hr/> |
| Exchange rate losses          | (11)  |

We point out that the amount relating to the positive exchange differences includes an amount of 448 thousand euro relating to the sum of the unrealised positive differences, which originated from the adjustment to the year-end exchange rates of the currency positions open at 12/31/2005. As regards the negative differences, the sum of the unrealised losses equals 283 thousand euro. Accordingly, the balance between the unrealised positive and negative differences, is positive and amounts to 165 thousand euro.



## **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS**

### **59) REVALUATION OF EQUITY INVESTMENTS**

As a consequence of the positive result obtained in 2005 by the subsidiary PRIMA North America Inc. the value of the equity investment was partially reinstated for an amount of 2,208 thousand euro.

### **60) WRITEDOWN OF EQUITY INVESTMENTS**

The sum of 295 thousand euro includes the provisions raised to cover losses sustained by the following companies:

|                                            |            |
|--------------------------------------------|------------|
| - PRIMA SCANDINAVIA AB                     | 162        |
| - PRIMA INDUSTRIE GmbH                     | 9          |
| - Shenyang PRIMA Laser Machine Company Ltd | 75         |
| - SNK PRIMA Co.                            | 49         |
|                                            | <u>295</u> |

## **EXTRAORDINARY INCOME AND EXPENSES**

### **61) CAPITAL GAINS ON SALES**

In 2005, pursuant to the sale of treasury stock, a capital gain of approximately 123 thousand euro was made.

### **62) LOSSES ON DISPOSALS**

In 2005, pursuant to the sale of treasury stock, a capital loss of approximately 9 thousand euro was sustained. During the financial year the value of the treasury stock was adjusted to the average market price, resulting in an adjustment of 2 thousand euro.

### **63) EXTRAORDINARY INCOME**

The extraordinary income of 110 thousand euro are as a result of the adoption of the domestic tax consolidation.

#### 64) **INCOME TAXES FOR THE FINANCIAL YEAR**

##### **Current taxes**

Current taxes total 1,523 thousand euro compared to 1,318 thousand euro in the previous year and relate to IRES for 895 thousand euro net of the utilization of the provision for deferred taxes (350 thousand euro) gross of credits for taxes paid in advance (988 thousand euro), and of IRAP for the year (629 thousand euro). This amount has been reduced, which is also net of the utilization of the provision for deferred taxes (45 thousand euro) and gross of credits for taxes paid in advance (5 thousand euro).

| RECONCILIATION BETWEEN ORDINARY AND ACTUAL RATE                      | Taxable income | IRES       | Rate        |
|----------------------------------------------------------------------|----------------|------------|-------------|
| Income (loss) before Taxes                                           | 5,305          | 1,751      | 33.00       |
| Losses – subsidiaries                                                | 295            | 97         | 1.84        |
| Dividends                                                            | (600)          | (198)      | (3.73)      |
| Reinstatement of value of investments (PRIMA North America)          | (2,208)        | (729)      | (13.73)     |
| Permanent differences (increase)                                     | 697            | 230        | 4.34        |
| Permanent differences (decrease)                                     | (110)          | (36)       | (0.68)      |
| Temporary differences for use/allocation of provisions               | 1,195          | 394        | 7.43        |
| Temporary differences for grants received                            | (497)          | (164)      | (3.09)      |
| Temporary differences for prior period investee losses               | (2,242)        | (740)      | (13.95)     |
| Other temporary differences                                          | 68             | 23         | 0.42        |
| Taxable amount - IRES                                                | 1,903          | 628        | 11.84       |
| Use of losses carry forward                                          | (1,093)        | (361)      | (6.80)      |
| Gratuities                                                           | (3)            | (1)        |             |
| <b>TAXES FOR THE FINANCIAL YEAR</b>                                  | <b>807</b>     | <b>266</b> | <b>5.02</b> |
| Deferred tax utilisation                                             |                | (350)      |             |
| Prepaid tax credits utilisation                                      |                | 988        |             |
| 5% reversal on dividends - participation domestic tax consolidation. |                | (10)       |             |
| <b>TOTAL</b>                                                         |                | <b>894</b> | <b>16,8</b> |

|                                                | <b>Taxable income</b> | <b>Ratea</b> | <b>IRAP</b> |
|------------------------------------------------|-----------------------|--------------|-------------|
|                                                |                       |              |             |
| Value of Production                            | 76.853                |              |             |
| Variations (Increase/Decrease)                 | (498)                 |              |             |
| <b>TOTAL POSITIVE ITEMS</b>                    | <b>76.355</b>         |              |             |
|                                                |                       |              |             |
| Value of Production (labour cost not included) | (59.522)              |              |             |
| Variations (Increase/Decrease)                 | 332                   |              |             |
| <b>TOTAL NEGATIVE ITEMS</b>                    | <b>(59.190)</b>       |              |             |
|                                                |                       |              |             |
| Net value of production                        | 17.165                | 4,25         |             |
|                                                |                       |              |             |
| Taxable amount 91,64%                          | 15.730                | 4,25         | 669         |
| Deferred tax utilisation                       |                       |              | (45)        |
| Prepaid tax credits utilisation                |                       |              | 5           |
|                                                |                       |              |             |
| <b>IRAP (Total amount)</b>                     |                       |              | <b>629</b>  |

### Deferred taxes

The adoption of Accounting Principle No. 25 relating to deferred taxes, had a negative effect on Net Income for the year (equal to 680 thousand euro). In 2004 the effect amounted to 595 thousand euro.

## Prepaid taxes

The adoption of Accounting Principle No. 25 relating to prepaid taxes, had a positive effect on income for the year (equal to 678 thousand euro). In 2004 the effect amounted to 209 thousand euro.

The details are as follows:

|                                                | Deferred tax assets-Base | Deferred tax assets |
|------------------------------------------------|--------------------------|---------------------|
| <i>Amounts at 37.25%</i>                       |                          |                     |
| Entertainment expenses                         | 46                       |                     |
| Directors' remuneration not paid               | 70                       |                     |
| Total                                          | 116                      | 43                  |
| <i>Amounts at 33%</i>                          |                          |                     |
| Non-deductible allowance for doubtful accounts | 776                      |                     |
| Provision for contractual risks and charges    | 2,695                    |                     |
| Provision for writedowns of inventory          | 1,188                    |                     |
| Writedown of equity investments                | 2,917                    |                     |
| Provision for agents' customer indemnity       | 28                       |                     |
| Unrealised exchange differences                | 165                      |                     |
| Total                                          | 7,769                    | 2,564               |
| <b>Total deferred tax assets</b>               | <b>7,885</b>             | <b>2,607</b>        |
|                                                |                          |                     |
| (-) Deferred tax asset at 12/31/2004           |                          | (2,923)             |
| (+) Utilization at 12/31/2005                  |                          | 994                 |
|                                                |                          |                     |
| Total recorded in the 2005 Income Statement    |                          | 678                 |

|                                             | Deferred tax tax liabilities - Base | Deferred tax liabilities |
|---------------------------------------------|-------------------------------------|--------------------------|
| <i>Amounts at 37.25%</i>                    |                                     |                          |
| PAMELA grant                                | 1,929                               |                          |
| Resalt grant                                | 1,647                               |                          |
| Eureka/Publics grant                        | 120                                 |                          |
| Brite Hatlas grant                          | 6                                   |                          |
| Sincrono (formerly Lightpress) grant        | 217                                 |                          |
| Other grants                                | 62                                  |                          |
| Total                                       | 3,981                               | 1,483                    |
| <i>Amounts at 37.25%</i>                    | -                                   | -                        |
| <b>Total deferred tax liabilities</b>       | <b>3,981</b>                        | <b>1,483</b>             |
|                                             |                                     |                          |
| (-) Deferred tax liability at 12/31/2004    |                                     | (1,198)                  |
| (+) Utilization at 12/31/2005               |                                     | 395                      |
|                                             |                                     |                          |
| Total recorded in the 2005 Income Statement |                                     | 680                      |

## **APPENDICES**

The following appendices contain additional information to the Notes and form an integral part of same.

The aforesaid information is contained in the following schedules:

- Statement of changes in stockholders' equity for the years ended December 31, 2005 and 2004
- List of equity investments in subsidiaries and associated companies at December 31, 2005 ex-section 2427, No. 5 of the Italian Civil Code.
- Statement of changes in financial fixed assets: equity investments in subsidiaries.
- Statement of changes in current assets: equity investments in other companies.
- Statement of changes in intangible fixed assets for the financial year ended December 31, 2005.
- Statement of changes in tangible fixed assets for the financial year ended December 31, 2005.
- Summary of the highlights of the most recently approved Financial Statements of subsidiaries and associated companies (art. 2429 of the Italian Civil Code).
- Cash Flow Statement for the financial years ended 2005 and 2004.

Moreover, the following are attached as required by Art. 78 of Consob regulation No. 11971 of May 14, 1999:

- Statement of compensation paid to directors, statutory auditors and the general manager

# STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE FINANCIAL YEARS ENDED DECEMBER 31, 2005 AND 2004

(thousands of euro)

| Description                              | Capital<br>Stock | Share premium<br>reserve<br>(A B C) (*) | Rivaluation<br>Reserve | Legal<br>reserve<br>(B) | Treasury<br>Stock<br>Reserve | Statutory<br>Reserve<br>(A B C) | Dividend | Profits<br>/(Losses)<br>Carried<br>forward | Profit/(Loss)<br>for the financ.<br>year<br>(A B C) | Total<br>Stockholders'<br>equity |
|------------------------------------------|------------------|-----------------------------------------|------------------------|-------------------------|------------------------------|---------------------------------|----------|--------------------------------------------|-----------------------------------------------------|----------------------------------|
| <b>Balance at 31/12/03</b>               | <b>11.500</b>    | <b>16.862</b>                           | <b>-</b>               | <b>730</b>              | <b>323</b>                   | <b>1.484</b>                    | <b>-</b> | <b>-</b>                                   | <b>(2.834)</b>                                      | <b>28.065</b>                    |
| Allocation of 2003 result                |                  | (1.350)                                 |                        |                         |                              | (1.484)                         |          |                                            | 2.834                                               |                                  |
| Adjustment of reserve for treasury stock |                  | 153                                     |                        |                         | (153)                        |                                 |          |                                            |                                                     |                                  |
| Profit (loss) for the year               |                  |                                         |                        |                         |                              |                                 |          |                                            | 827                                                 | 827                              |
| <b>Balance at 31/12/04</b>               | <b>11.500</b>    | <b>15.665</b>                           | <b>-</b>               | <b>730</b>              | <b>170</b>                   | <b>0</b>                        | <b>-</b> | <b>-</b>                                   | <b>827</b>                                          | <b>28.892</b>                    |
| Allocation of 2004 result                | -                |                                         | -                      | 41                      | -                            | 143                             | 643      | -                                          | (827)                                               | -                                |
| Adjustment of Reserve fo treasury stock  |                  |                                         | -                      | -                       | (77)                         | 77                              | -        | -                                          | -                                                   | -                                |
| Dividend payment                         |                  |                                         |                        |                         |                              |                                 | (643)    |                                            |                                                     | (643)                            |
| Profit(loss)for the year                 |                  |                                         |                        |                         |                              |                                 |          |                                            | 3.780                                               | 3.780                            |
| <b>Balance at 31/12/05</b>               | <b>11.500</b>    | <b>15.665</b>                           | <b>-</b>               | <b>771</b>              | <b>93</b>                    | <b>220</b>                      | <b>-</b> | <b>-</b>                                   | <b>3.780</b>                                        | <b>32.029</b>                    |
| Non distributable portion                |                  | 1.340                                   |                        | 771                     | 93                           | 220                             |          |                                            | 2.373(**)                                           | 4.797                            |
| Distributable portion                    |                  | 14.325                                  |                        |                         |                              |                                 |          |                                            | 1.407                                               | 15.732                           |
| <b>Total Reserves</b>                    |                  | <b>15.665</b>                           |                        | <b>771</b>              | <b>93</b>                    | <b>220</b>                      |          |                                            | <b>3.780</b>                                        | <b>20.529</b>                    |

**Key:**        *A* : for increase in Capital Stock  
              *B* : to cover losses  
              *C* : Distribution - Stockholders

(\*) The entire amount of the share premium reserve is distributable in terms of article 2431 of the Italian Civil Code on condition that the legal reserve has reached the limit referred to in article 2430 of the Code.

|                                                     |              |
|-----------------------------------------------------|--------------|
| (**) Portion to be allocated to the legal reserve   | 1,529        |
| Portion relating to unrealized exchange differences | 165          |
| Portion to reinstate the PNA equity investment      | 679          |
|                                                     | <b>2,373</b> |

**LIST OF EQUITY INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES**  
(at December 31, 2005)

| Capital stock | Stake | Result<br>for the year<br>(thousands of<br>euro) | Stockholders'<br>equity<br>(thousands of<br>euro) | Value per<br>PRIMA<br>INDUSTRIE<br>SpA's Financial<br>Statements<br>(thousands of<br>euro) |
|---------------|-------|--------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------|
|---------------|-------|--------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------------------|

**SUBSIDIARIES**

(included in the area of consolidation)

(included in the area of consolidation)

|                           |                                                                                                                        |                                                                                                    |                    |      |       |       |        |
|---------------------------|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------|------|-------|-------|--------|
| PRIMA ELECTRONICS SpA     | Strada Carignano, 48/2<br>10024 Moncalieri (TO)                                                                        |                                                                                                    | € 1,500,000        | 100% | 998   | 6,693 | 1,705  |
| PRIMA North America, Inc. | <i>Convergent Lasers Divison &amp; PRIMA Laser Tools Division:</i><br>711 East Main Street<br>Chicopee, MA 01020 (USA) | <i>Laserdyne Systems Division:</i><br>8600 109 <sup>th</sup> Av.<br>North Champlin, MN 55316 (USA) | U.S.<br>24,000,000 | 100% | 2,208 | 8,531 | 10,797 |
| PRIMA INDUSTRIE GmbH      | Shöne Aussicht 5a<br>Kronberg (D)                                                                                      |                                                                                                    | € 500,000          | 100% | (116) | (432) | 325    |
| PRIMA SCANDINAVIA AB      | MöIndalsvägen 30c<br>SE-412 63 Goteborg (S)                                                                            |                                                                                                    | SEK 100.000        | 100% | (164) | 11    | 13     |
| PRIMA INDUSTRIE UK LTD.   | Unit 1, Phoenix Park<br>Bayton Road<br>Coventry CV7 90N<br>UK                                                          |                                                                                                    | GBP 1              | 100% | 334   | 385   | -      |



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**ASSOCIATED COMPANIES****(not consolidated)**

|                                                     |                                                                            |                   |        |       |         |     |
|-----------------------------------------------------|----------------------------------------------------------------------------|-------------------|--------|-------|---------|-----|
| Macro Meccanica SpA<br>(in liquidation) (*)         | Via don Sapino 134<br>10040 Venaria – Fraz.<br>Savonera (Turin)            | L./mil. 630       | 35.48% | 213   | (1,222) | 0   |
| Shenyang PRIMA Laser<br>Machine Company Ltd         | Shenyang Liaoning Province,<br>China<br>45 Huanghai Rd, Yuhong<br>District | U.S. 2,000,000    | 50%    | (151) | 1,043   | 585 |
| SNK PRIMA Company Ltd<br>(**)                       | Misaki Plant Fuke, Misaki-Cho,<br>Sennan-Gun,<br>Osaka - Japan             | Yen 90,000,000    | 50%    | (49)  | 315     | 215 |
| Shanghai Unity PRIMA<br>Laser Machinery Co Ltd.     | 2019, Kunyang Rd.<br>Shanghai 201111 - China                               | Rmb<br>16,000,000 | 27.50% | 1,465 | 3,636   | 450 |
| Mechanical Industries Srl<br>(in liquidation) (***) | Via don Sapino 134<br>10040 Venaria – Fraz. Savonera<br>(Turin)            | € 487,289         | 21.62% | 1     | 492     | 0   |

(\*) Most recently approved liquidation Financial Statements: 12/31/2001

(\*\*) Half-yearly Financial Statements at 09/30/05

(\*\*\*) Most recently approved Financial Statements 12/31/01

**STATEMENT OF CHANGES IN FINANCIAL FIXED ASSETS -  
EQUITY INVESTMENTS IN SUBSIDIARIES**

*(thousands of euro)*

|                                                                                                                                                       | Opening balance                                            |                            |                          | Movements during the year |           | Final position           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------|--------------------------|---------------------------|-----------|--------------------------|
|                                                                                                                                                       | Original cost<br>valued according to<br>the<br>cost method | Revaluations<br>Writedowns | Balance at<br>01/01/2005 | Increases                 | Decreases | Balance at<br>12/31/2005 |
| PRIMA ELECTRONICS SpA<br>Strada Carignano, 48/2<br>10024 Moncalieri (TO)                                                                              | 1,705                                                      | -                          | 1,705                    | -                         | -         | 1,705                    |
| PRIMA North America, Inc.<br><br>711 East Main Street<br>Chicopee, MA 01020 (USA)<br><br>8600 109 <sup>th</sup> Av. North<br>Champlin, MN 55316 (USA) | 22,604                                                     | (15,617)                   | 6,987                    | 3,810                     | -         | 10,797                   |
| PRIMA INDUSTRIE GmbH<br>Shöne Aussicht 5a - Kromberg (D)                                                                                              | -                                                          | -                          | -                        | 474                       | (149)     | 325                      |
| PRIMA SCANDINAVIA AB<br>Mölndalsvägen 30c<br>SE-412 63 Goteborg (S)                                                                                   | 134                                                        | (73)                       | 61                       | 115                       | (162)     | 14                       |

|                                                                                           |        |          |       |       |       |        |
|-------------------------------------------------------------------------------------------|--------|----------|-------|-------|-------|--------|
| PRIMA INDUSTRIE UK LTD.<br>Unit 1, Phoenix Park , Bayton<br>Road<br>Coventry CV7 90N - UK | -      | -        | -     | -     | -     | -      |
| <b>TOTAL</b>                                                                              | 24,443 | (15,690) | 8,753 | 4,399 | (311) | 12,841 |

## STATEMENT OF CHANGES IN CURRENT ASSETS

(thousands of euro)

### EQUITY INVESTMENTS IN OTHER COMPANIES:

| Description                                                  | Accounting position                                               | Movements during the year |           | Final position        | Stake |
|--------------------------------------------------------------|-------------------------------------------------------------------|---------------------------|-----------|-----------------------|-------|
|                                                              |                                                                   | Increases                 | Decreases |                       |       |
|                                                              | Original cost<br>1/1/05 valued<br>according to the<br>cost method |                           |           | Balance<br>12/31/2005 |       |
| Unionfidi<br>Soc. Coop a r.l.<br>Via Nizza 262/56<br>Torino  | 0.1                                                               |                           | -         | 0.1                   | -     |
| Fidindustria<br>Soc. Coop a r.l.<br>Via Torino, 56<br>Biella | 0.1                                                               | -                         | -         | 0.1                   | -     |

**STATEMENT OF CHANGES IN INTANGIBLE FIXED ASSETS**  
**ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005**

(thousands of euro)

| Fixed assets                                         | Initial position |                          |                  | Movements during the year |                           | Final position |                          |                    |
|------------------------------------------------------|------------------|--------------------------|------------------|---------------------------|---------------------------|----------------|--------------------------|--------------------|
|                                                      | Original costs   | Accumulated amortization | Balance 1.1.2005 | Additions                 | Amortization & writedowns | Original Cost  | Accumulated amortization | Balance 12/31/2005 |
| PLANT AND EXPANSION COSTS                            | 168              | (168)                    | -                | -                         | -                         | 168            | (168)                    | 0                  |
| RESEARCH, DEVELOPMENT AND ADVERTISING COSTS          | -                | -                        | ..               |                           |                           |                |                          |                    |
| INDUSTRIAL PATENT AND INTELLECTUAL PROPERTY RIGHTS   | 1,406            | (1,246)                  | 160              | 155                       | (126)                     | 1,561          | (1,372)                  | 189                |
| CONCESSIONS, LICENCES, TRADEMARKS AND SIMILAR RIGHTS | 10               | (5)                      | 5                | -                         | (1)                       | 10             | (6)                      | 4                  |
| GOODWILL                                             | -                | -                        | -                |                           |                           |                |                          |                    |
| ASSETS UNDER CONSTRUCTION AND ADVANCES               | -                | -                        | -                |                           |                           |                |                          |                    |

|                                     |       |         |     |    |      |      |         |     |
|-------------------------------------|-------|---------|-----|----|------|------|---------|-----|
| OTHER INTANGIBLE<br>FIXED<br>ASSETS | 1,517 | (1,195) | 322 | 27 | (78) | 1544 | (1,273) | 271 |
|-------------------------------------|-------|---------|-----|----|------|------|---------|-----|

|       |       |         |     |     |       |       |         |     |
|-------|-------|---------|-----|-----|-------|-------|---------|-----|
| Total | 3,101 | (2,614) | 487 | 182 | (205) | 3,283 | (2,819) | 464 |
|-------|-------|---------|-----|-----|-------|-------|---------|-----|

**STATEMENT OF CHANGES IN TANGIBLE  
FIXED ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005**

(thousands of euro)

| Fixed assets                           | Initial position |                  |                   |                     | Movements during the year |            |                |                                | Final position   |                      |                   |                       |
|----------------------------------------|------------------|------------------|-------------------|---------------------|---------------------------|------------|----------------|--------------------------------|------------------|----------------------|-------------------|-----------------------|
|                                        | ORIGINAL<br>COST | REVALUA<br>TIONS | ACCUM.<br>DEPREC. | BALANCE<br>1.1.2005 | ADDITIONS                 | DISPOSALS  | DEPRE<br>CIAT. | RELEASE<br>- ACCUM.<br>DEPREC. | ORIGINAL<br>COST | REVA<br>LUATI<br>ONS | ACCUM.<br>DEPREC. | BALANCE<br>12/31/2005 |
| LAND AND BUILDINGS                     | 802              | -                | (224)             | 578                 | -                         | -          | (42)           | -                              | 802              | -                    | (266)             | 536                   |
| PLANT AND MACHINERY                    | 1,637            | 11               | (1,158)           | 490                 | 147                       | -          | (111)          | -                              | 1,784            | 11                   | (1,269)           | 526                   |
| INDUSTRIAL AND COMMERCIAL EQUIPMENT    | 1,749            | -                | (1,401)           | 348                 | 88                        | -          | (162)          | -                              | 1,837            | -                    | (1,563)           | 274                   |
| OTHER TANGIBLE ASSETS                  | 1,511            | 6                | (1,303)           | 214                 | 136                       | (3)        | (89)           | 3                              | 1,644            | 6                    | (1,389)           | 261                   |
| ASSETS UNDER CONSTRUCTION AND ADVANCES | -                | -                | -                 | -                   | -                         | -          | -              | -                              | -                | -                    | -                 | -                     |
| <b>Total</b>                           | <b>5,699</b>     | <b>17</b>        | <b>(4,086)</b>    | <b>1,630</b>        | <b>371</b>                | <b>(3)</b> | <b>(404)</b>   | <b>3</b>                       | <b>6,067</b>     | <b>17</b>            | <b>(4,487)</b>    | <b>1,597</b>          |

**SUMMARY OF THE KEY INDICATORS  
OF THE MOST RECENTLY APPROVED FINANCIAL STATEMENTS  
OF SUBSIDIARIES AND ASSOCIATED COMPANIES (ART. 2429 OF THE ITALIAN CIVIL CODE)**

|                                                      | <b>Prima<br/>Electronics<br/>S.p.A</b> | <b>Prima<br/>North<br/>America<br/>Inc.</b> | <b>Prima<br/>GmbH</b> | <b>Prima<br/>Scandina<br/>via AB</b> | <b>Prima<br/>Industrie<br/>UK LTD</b> | <b>Shenyang<br/>Prima<br/>Laser<br/>Machine</b> | <b>SNK<br/>Prima<br/>Company<br/>LTD.</b> | <b>Shanghai<br/>Unity<br/>Prima</b> | <b>Macro<br/>Meccanica<br/>Spa in<br/>liquidation</b> | <b>Mechanic<br/>al<br/>Industrie<br/>s</b> |
|------------------------------------------------------|----------------------------------------|---------------------------------------------|-----------------------|--------------------------------------|---------------------------------------|-------------------------------------------------|-------------------------------------------|-------------------------------------|-------------------------------------------------------|--------------------------------------------|
| Currency of account                                  | Thousands of euro                      | Thousands of US\$                           | Thousands of euro     | Thousands of SEK                     | Thousands of GBP                      | Thousands of RMB                                | Thousands of Yen                          | Thousands of RMB                    | Thousands of euro                                     | Thousands of euro                          |
| Reference period of the Financial Statements         | 2005                                   | 2005                                        | 2005                  | 2005                                 | 2005                                  | 2005                                            | Half-yearly 09/30/05                      | 2005(*)                             | 2001                                                  | 2001                                       |
| Included in the area of consolidation (line-by-line) | YES                                    | YES                                         | YES                   | YES                                  | YES                                   | NO                                              | NO                                        | NO                                  | NO                                                    | NO                                         |
| <b><u>ASSETS</u></b>                                 |                                        |                                             |                       |                                      |                                       |                                                 |                                           |                                     |                                                       |                                            |
| Fixed assets                                         | 1,945                                  | 5,068                                       | 333                   | 153                                  | 11                                    | 1,414                                           | 22,110                                    | 5,526                               | -                                                     | 1,809                                      |
| Current assets                                       | 12,168                                 | 26,875                                      | 3,225                 | 8,993                                | 2,901                                 | 31,003                                          | 20,875                                    | 76,563                              | 503                                                   | 1,098                                      |
| Accrued income and prepaid expenses                  | 9                                      |                                             | -                     |                                      | -                                     | -                                               | -                                         |                                     | -                                                     | 457                                        |
| <b>Total assets</b>                                  | <b>14,121</b>                          | <b>31,943</b>                               | <b>3,559</b>          | <b>9,146</b>                         | <b>2,912</b>                          | <b>32,417</b>                                   | <b>42,985</b>                             | <b>82,090</b>                       | <b>503</b>                                            | <b>3,364</b>                               |
| <b><u>LIABILITIES</u></b>                            |                                        |                                             |                       |                                      |                                       |                                                 |                                           |                                     |                                                       |                                            |
| Stockholders' equity                                 | 6,693                                  | 8,386                                       | 467                   | 102                                  | 272                                   | 9,934                                           | 42,883                                    | 34,612                              | (1,222)                                               | 492                                        |
| Provision for risks and charges                      | 240                                    | 1,401                                       | 584                   | 36                                   | 47                                    | -                                               | -                                         | -                                   | 410                                                   | -                                          |
| Employees' severance fund                            | 1,350                                  | -                                           | -                     | -                                    | -                                     | -                                               | -                                         | -                                   | 35                                                    | 383                                        |
| Payables                                             | 5,810                                  | 22,156                                      | 2,508                 | 9,008                                | 2,593                                 | 22,483                                          | 102                                       | 47,478                              | 1,280                                                 | 2,472                                      |
| Accrued expenses and deferred income                 | 28                                     | -                                           | -                     |                                      |                                       | -                                               | -                                         | -                                   | -                                                     | 17                                         |
| <b>Total liabilities</b>                             | <b>14,121</b>                          | <b>31,943</b>                               | <b>3,559</b>          | <b>9,146</b>                         | <b>2,912</b>                          | <b>32,417</b>                                   | <b>42,985</b>                             | <b>82,090</b>                       | <b>503</b>                                            | <b>3,364</b>                               |
| <b><u>INCOME STATEMENT</u></b>                       |                                        |                                             |                       |                                      |                                       |                                                 |                                           |                                     |                                                       |                                            |
| Sales                                                | 16,369                                 | 41,036                                      | 2,479                 | 8,820                                | 3,184                                 | 33,519                                          | -                                         | 72,547                              | -                                                     | 2,997                                      |
| Value of production                                  | 16,895                                 | 42,773                                      | 2,479                 | 8,762                                | 3,464                                 | 33,723                                          | -                                         | 59,078                              | 15                                                    | 3,237                                      |
| Costs of production                                  | (15,110)                               | (39,319)                                    | (2,328)               | (10,284)                             | (3,315)                               | (37,516)                                        | (6,838)                                   | (44,168)                            | (304)                                                 | (3,094)                                    |
| Difference between value and costs of production     | 1,786                                  | 3,454                                       | 151                   | (1,522)                              | 149                                   | (3,793)                                         | (6,838)                                   | 14,910                              | (289)                                                 | 143                                        |
| Financial management                                 | 18                                     | (576)                                       | 1                     | 2                                    | 4                                     | 2,257                                           | -                                         | 31                                  | (5)                                                   | (37)                                       |
| Extraordinary management                             | 6                                      |                                             | -                     | -                                    | -                                     |                                                 | -                                         | -                                   | 507                                                   | (2)                                        |
| Taxes                                                | (812)                                  | (50)                                        |                       | -                                    | (2)                                   | -                                               | -                                         | -                                   | -                                                     | (103)                                      |
| <b>Net profit (loss)</b>                             | <b>998</b>                             | <b>2,827</b>                                | <b>152</b>            | <b>(1,520)</b>                       | <b>151</b>                            | <b>(1,536)</b>                                  | <b>(6,838)</b>                            | <b>14,941</b>                       | <b>213</b>                                            | <b>1</b>                                   |

(\*) IAS-IFRS reclassified data





# CASH FLOW STATEMENT FOR THE FINANCIAL YEAR ENDED 2005

(thousands of euro)

|                                                                                       | 2004            |  | 2005           |  |
|---------------------------------------------------------------------------------------|-----------------|--|----------------|--|
| <b>A) Opening net financial position</b>                                              | <b>(13,550)</b> |  | <b>(9,433)</b> |  |
| <b>B) Cash flow from operations</b>                                                   | <b>783</b>      |  | <b>5,945</b>   |  |
| • Net profit (loss)                                                                   | 827             |  | 3,780          |  |
| • Amortization/Depreciation                                                           | 612             |  | 610            |  |
| • Net change in provision for employees' severance fund                               | (72)            |  | 396            |  |
| • Net change in provisions for risks                                                  | (1,002)         |  | 524            |  |
| • Provision reserve for bed debts                                                     | (36)            |  | 750            |  |
| • Provision reserve to writedown of finished products                                 | 307             |  | (490)          |  |
| • Provision reserve to writedown of raw materials                                     | 147             |  | 375            |  |
| <b>B)bis Capital increases</b>                                                        |                 |  | <b>-</b>       |  |
| <b>C) Cash flow from changes in current assets</b>                                    | <b>3,107</b>    |  | <b>1,028</b>   |  |
| • Net decrease / (Increase) in inventories                                            | 11              |  | (1,685)        |  |
| • Net decrease/(Increase) in trade accounts receivable                                | 5,012           |  | (789)          |  |
| • Net decrease / (Increase) in receivables from subsidiaries and associated companies | (4,358)         |  | (929)          |  |
| • Decrease / (Increase) in other receivables                                          | (380)           |  | 1,193          |  |
| • Decrease/(Increase) in accrued income & prepaid expenses                            | (113)           |  | 322            |  |
| • (Decrease) / Increase in provision for tax                                          | 233             |  | 285            |  |
| • (Decrease) / Increase in advances from customers                                    | (288)           |  | (80)           |  |
| • (Decrease) / Increase in trade payables                                             | 726             |  | 1,503          |  |
| • (Decrease) / Increase in payables to subsidiaries and associated companies          | 1,335           |  | 643            |  |
| • (Decrease) / Increase in other payables                                             | 845             |  | 447            |  |
| • (Decrease)/ Increase in accrued expenses & deferred income                          | (69)            |  | 40             |  |
| • (Decrease) / Increase in treasury stock                                             | 153             |  | 78             |  |
| <b>D) Cash flow from changes in fixed assets</b>                                      | <b>227</b>      |  | <b>(3,596)</b> |  |
| • Capitalisation of intangible fixed assets                                           | (225)           |  | (182)          |  |
| • Capital expenditure on tangible fixed assets                                        | (346)           |  | (371)          |  |
| • Sales of assets                                                                     | 24              |  | 3              |  |
| • Release of accumulated depreciation                                                 | (10)            |  | (3)            |  |
| • (Decrease) / Increase in equity investments                                         | (1,752)         |  | (2,518)        |  |
| • (Decrease) / Increase in financial receivables                                      | 2,142           |  | 1,388          |  |
| • (Decrease) / Increase in guarantee securities                                       | -               |  | -              |  |
| • Provisions raised/Reinstatement to provision on equity (+G/C)                       | 394             |  | (1913)         |  |

|                                                              |              |
|--------------------------------------------------------------|--------------|
| <b>D Bis) Cash flow from changes in stockholders' equity</b> | <b>(642)</b> |
| • Decreases in Stockholders' Equity (dividends)              | (642)        |

|                                                                            |                |                |
|----------------------------------------------------------------------------|----------------|----------------|
| <b>E) Closing net financial position</b>                                   | <b>(9,433)</b> | <b>(6,698)</b> |
| • Amounts due to banks                                                     | (12,013)       | (13,368)       |
| • Amounts due to other lenders                                             | (811)          | (726)          |
| • Cash and cash equivalents                                                | 3,141          | 7,138          |
| • Liquidity invested in repurchase agreements and/or government securities | 250            | 258            |
|                                                                            |                |                |

## COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

*(information expressed in euro)*

As required by Article 78 of Consob regulation No. 11971 approved on 5/14/99 a summary of the compensation paid by PRIMA INDUSTRIE SpA and the subsidiary companies to the directors, statutory auditors and the general manager, relative to the persons who held such appointments during the year 2005, is provided herein below.

| Surname and name         | Appointment                                                                | Term of office                         | Date on which the appointment terminates | Remuneration for the appointment in the company which prepares the Financial Statements <sup>(1)</sup> | Non-monetary benefits | Bonuses and other incentives | Other compensation (salaries) |
|--------------------------|----------------------------------------------------------------------------|----------------------------------------|------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------|------------------------------|-------------------------------|
| PALMERI Aldo             | Chairman of the Board of Directors Prima Industrie                         | 1/01/05 – 05/13/05                     | Approv. Financial Statements 2004        | 6.187.,50                                                                                              | -                     | -                            | -                             |
| CARBONATO Gianfranco     | Chairman of the Board of Directors Chief Executive Officer PRIMA INDUSTRIE | 05/13/05-31/12/05<br>01/01/05-12/31/05 | Approv. Financial Statements 2007        | 319,562.50                                                                                             | Car 3,363.36          | -                            | <sup>(2)</sup><br>13,500.00   |
| DELLA ROSA Giulia Luigia | Director PRIMA INDUSTRIE                                                   | 01/01/05-05/13/05                      | Approv. Financial Statements 2004        | 2,062.50                                                                                               | -                     | -                            | -                             |
| D'ISIDORO Sandro         | Director PRIMA INDUSTRIE                                                   | 01/01/05-12/31/05                      | Approv. Financial Statements 2007        | 9562.50                                                                                                | -                     | -                            | -                             |
| LUGARESI Fabrizio        | Director PRIMA INDUSTRIE                                                   | 05/13/05-12/31/05                      | Approv. Financial Statements 2007        | 7,500.00                                                                                               | -                     | -                            | -                             |
| MAURI Mario              | Director PRIMA                                                             | 05/13/05-                              | Approv.                                  | 7,500.00                                                                                               | -                     | -                            | -                             |

|                       |                                             |                   |                                   |           |              |           |                |
|-----------------------|---------------------------------------------|-------------------|-----------------------------------|-----------|--------------|-----------|----------------|
|                       | INDUSTRIE                                   | 12/31/05          | Financial Statements 2007         |           |              |           |                |
| MORFINO Giuseppe      | Director PRIMA INDUSTRIE                    | 01/01/05-06/07/05 | Approv. Financial Statements 2007 | 2,562.50  | -            | -         | -              |
| PINCIROLI Marco       | Director PRIMA INDUSTRIE                    | 01/01/05-12/31/05 | Approv. Financial Statements 2007 | 9,562.50  | -            | -         | -              |
| PELLEGRINI Pio        | Director PRIMA INDUSTRIE                    | 06/14/05-12/31/05 | Approv. Financial Statements 2007 | 6,500.00  | -            | -         | -              |
| PEIRETTI Domenico     | Director PRIMA INDUSTRIE                    | 01/01/05-12/31/05 | Approv. Financial Statements 2007 | 9,562.50  | (3) 4,809.78 | 16,083.00 | (4) 191,358.45 |
| MANSOUR Rafic Youssef | Director PRIMA INDUSTRIE                    | 01/01/05-5/13/05  | Approv. Financial Statements 2004 | 2,062.50  | -            | -         | -              |
| SCARPARI Francesco    | Director PRIMA INDUSTRIE                    | 01/01/05-03/21/05 | Approv. Financial Statements 2004 | 1,375.00  | -            | -         | -              |
| FORMICA Riccardo      | Chairman of the Board of Statutory Auditors | 01/01/05-12/31/05 | Approv. Financial Statements 2006 | 41,522.96 | -            | -         | -              |
| MOSCA Andrea          | Statutory auditor                           | 01/01/05-12/31/05 | Approv. Financial Statements 2006 | 32,863.57 | -            | -         | -              |
| PETRIGNANI            | Statutory auditor                           | 01/01/05-         | Approv.                           | 33,838.08 | -            | -         | -              |

|                     |                                 |                   |                                   |   |          |           |                   |
|---------------------|---------------------------------|-------------------|-----------------------------------|---|----------|-----------|-------------------|
| Roberto             |                                 | 12/31/05          | Financial Statements 2006         |   |          |           |                   |
| FRIGERIO GianLuigi  | Alternate auditor               | 01/01/05-12/31/05 | Approv. Financial Statements 2006 | - | -        | -         | -                 |
| CODA Roberto        | Alternate auditor               | 01/01/05-12/31/05 | Approv. Financial Statements 2006 | - | -        | -         | -                 |
| DELLE PIANE Alberto | Corporate General Manager       | 01/01/05-12/31/05 | -                                 | - | 5,028.95 | 17,509.00 | 156,323.40        |
| BASSO Ezio          | General Manager PRIMA INDUSTRIE | 01/01/05-12/31/05 | -                                 | - | 3,918.30 | 16,554.00 | (5)<br>157,717.82 |

- (1) Determined on the accrual basis of which €13,500 is remuneration for the appointment as Chairman of PRIMA ELECTRONICS.
- (2) Benefits connected to the remuneration as an employee in PRIMA ELECTRONICS.
- (3) Of which €38,500 is remuneration for the appointment as MD of PRIMA ELECTRONICS and €155,858.45 is remuneration as an employee of PRIMA ELECTRONICS.
- (4) Of which €3,500 is remuneration for the appointment of Director of PRIMA ELECTRONICS and €154,217.82 is remuneration as an employee of PRIMA INDUSTRIE.

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

Registered office: Via Antonelli 32, 10097 Collegno (TO)  
Paid-in capital stock: Euro 11,500,000  
Registered in the Turin Companies' Register under No. 03736080015

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**REPORT OF THE BOARD OF STATUTORY AUDITORS  
TO THE STOCKHOLDERS' MEETING CONVENED FOR THE APPROVAL  
OF THE FINANCIAL STATEMENTS AS OF 12/31/2005  
(in accordance with Art. 153 of Legislative Decree n. 58 of Feb.24<sup>th</sup>, 1998)**

Dear Stockholders,

with regards to our work in compliance with Art.153 of Legislative Decree n. 58 of Feb.24<sup>th</sup>, 1998, we hereby note that—during the course of the year closing on December 31<sup>st</sup>, 2005—we have implemented the supervisory activity required by the law and in accordance with the code of conduct of the Board of Statutory Auditors issued by the National Councils of Chartered Accountants, while taking note of the recommendations supplied by the National Company and Stock Exchange Commission within communication notice n. 1025564 of April 6<sup>th</sup>, 2001.

We have examined the financial statements of 31.12.2005, as drafted by the Directors in accordance with the law and immediately communicated to the Board of Statutory Auditors on February 27<sup>th</sup>, 2006.

The financial statements of the year, in conjunction with the Management Report, highlight a net income for the year of €3,779,860.

With regards to accounting and financial statement auditing activity, it should be noted that—in compliance with Art. 159 of Legislative Decree n. 58 of Feb.24<sup>th</sup>, 1998, and with the approval of the Board of Statutory Auditors—you have renewed this task with the auditing company PricewaterhouseCoopers S.p.A. for the three-year period 2005-2007; this task was previously conferred for the three-year periods of 1999-2001 and 2002-2004.

In accordance with Legislative Decree n. 58/1998, the auditing company has therefore implemented supervisory activity during the course of 2005 with regards to regular company bookkeeping and has proceeded in ascertaining the correspondence between book values and accounting book entries and the financial statements in question.

The half-year report on the consolidated data of the Prima Industrie Group—drafted in compliance with the International Financial Reporting Standards, as ratified by the European Commission (IAS/IFRS) in application of European Regulations n. 1606 of July 19<sup>th</sup>, 2002, and in agreement with Art.81 of the Regulations of Issuing Entities n. 11971, amended by Consob resolution n. 14990 of April 14<sup>th</sup>, 2005—was subject to a limited audit on the part of PricewaterhouseCoopers S.p.A..  
Quarterly data and information was not audited as this was not mandatory.

During the course of the year, we have met the managers of the auditing company for the purposes of reciprocally exchanging information, in accordance with Art. 150, paragraph 3, of Legislative Decree n. 58/1998 and its amendments/supplements, and we confirm that the Auditors have not notified us of the existence of any reprehensible facts.

In addition, we have acquired any opportune information from the auditing company in relation to the report issued by the latter, in accordance with Art. 156 of Legislative Decree n. 58/1998, which is exempt from any remark.

With regards to the tasks falling under our competence, we certify that we have implemented the activities required by law during the course of the year by supervising over company management and verifying compliance with the law and the Articles of Association.

Given the specifications contained in Consob communication notice n.1025564 of 6.04.2001, the following points should, in particular, be noted:

- we have participated in the meetings of the Stockholders and of the Board of Directors, supervising over the compliance with the statutory, legislative and regulatory norms which regulate the operations of the company's bodies. We have obtained information from the Directors—with the frequency required by law and the Articles of Association—on the activities and operations of major economic and financial importance (including those of extraordinary nature) that were conducted by the company, its subsidiaries and correlated parties. With regards to the latter, we have paid particular attention—both individually and through the Board—to the fact that deliberated and implemented operations were in compliance with the law and the Articles of Association, and were not explicitly imprudent, risky, in contrast with the resolutions approved by the Meeting, in potential conflict of interest or capable of compromising the integrity of the company's assets, ensuring their compliance with proper managerial principles;
- With regards to the area falling under our competence, we have supervised over the adequacy of the organizational structure of the company and its compliance with proper managerial principles by means of direct observations or by collecting information from the managers of the organizational function, as well as through meetings with the auditing company for the purposes of a reciprocal exchange of relevant data and information;



- we have evaluated and supervised over the adequacy of the internal auditing system as well as the administrative and accounting system and the reliability of the latter in correctly representing managerial data. This was undertaken by collecting information from the managers of the respective functions as well as through an analysis of the work conducted by the auditing company and participation in the meetings of the Internal Auditing Committee;
- during the course of the year, we have implemented five periodical audits and participated in 10 meetings of the Board of Directors as well as one Ordinary Meeting and one Ordinary and Extraordinary Stockholders' Meeting. With regards to the Committees established within the Board of Directors, the Internal Auditing Committee and the Remuneration Committee, these met four and two times, respectively, during the course of 2005. The meetings of the Internal Auditing Committee were implemented in the presence of a representative of the Board of Statutory Auditors;
- we have therefore taken note of the activity implemented by the auditing company whose aim consisted in the verification of proper company booking and the correct surveying of managerial operations so as to permit the drafting of the financial statements of the year, in accordance with the law;
- we have supervised over the adequacy of the reciprocal flow of information between Prima Industrie S.p.A. and its subsidiaries, in accordance with Art.114, paragraph 2, of Legislative Decree n. 58/1998; this was ensured by the instructions issued by company management with respect to all of the Group. A further guarantee of reciprocal information was represented by the presence of the top representatives of upper management and certain members of the Board of Directors of the parent company within the corporate bodies of the subsidiaries. We have also exchanged information with the Chairman of the Board of Statutory Auditors of the subsidiary Prima Electronics S.p.A.; we have no particular observations in relation to this. The law does not provide for a supervisory body with respect to the American and German subsidiaries;
- We verified compliance with the legal norms and accounting principles established by the National Councils of Chartered Accountants during the process of drafting the financial statements and the management report; this was undertaken by means of direct audits and through information acquired from the Directors, company management and the auditing company. In relation to the International Financial Reporting Standards and International Accounting Standards (IFRS/IAS), the company has applied these standards for the first time in relation to the consolidated half-year report of the Group of June 30<sup>th</sup>, 2005.
- in accordance with Legislative Decree n. 231 of June 8<sup>th</sup>, 2001, we have verified that the Board of Directors—in its meeting of September 28<sup>th</sup>, 2005—had approved the “Organizational, Management and Auditing Model for the Prevention of Crime” and the “Code of Ethics and Conduct” drafted by the Supervisory Body in conjunction with the Internal Auditing Committee;

- We have verified that the Planning Document for Data Security was updated according to legal requirements, in compliance with point 19 of the Technical Regulations on the subject of minimum security measures – Attachment B of Legislative Decree (LD) 196/2003.
- We have verified that the option exercised by Prima Industrie S.p.A. for the purposes of adhering to the national consolidated tax regime with its subsidiary Prima Electronics S.p.A.—binding for the three-year period from 2004 to 2006—continued to be effective since no changes have occurred which could have resulted in its forfeiture.

We confirm that the organizational structure of the Company is suitable for its size.

In addition, we believe that the administrative and accounting system which we have verified and ascertained—even in previous years—is capable of correctly representing managerial data.

We confirm that Prima Industrie S.p.A. is not in a state of dependency or control on the part of other companies and that the stockholders of the companies have not stipulated stockholder agreements, in accordance with Art. 122 of LD 58/1998.

The Board of Directors has sent us the management report of the first half-year of the past year, according to legal requirements, as well as the quarterly reports relative to the first and third quarter of 2005; these were made public in accordance with the terms and modalities prescribed by the relative regulations issued by Consob and the Italian Stock Exchange.

In particular, the report of Group consolidated data as of June 30<sup>th</sup>, 2005—drafted in compliance with the International Financial Reporting Standards and accompanied by accounting statements and the relative explanatory notes of the parent company (drafted according to National Accounting Principles)—have been subject to careful examination on our part. Our observations in relation to these have been reported in the relative report.

**We hereby certify that:**

- the Board of Statutory Auditors, in compliance with the Unified Text on Finance (LD n. 58/1998), has been constantly informed with regards to matters of its competence;
- the periodical reviews and audits which we have performed on the company have not highlighted the existence of atypical and/or unusual operations, including those within the group or with correlated parties,
- intangible fixed assets with a multi-year useful life have been booked amongst the assets of the balance sheet with the consent of the auditing company, in accordance with Art. 154, paragraph 1, of LD n. 58/1998 and subsequent amendments/supplements. Research and development costs have been completely paid;

- with regards to intra-group operations, the Directors have highlighted and illustrated the existence of relations between your company and the companies of the group to which it belongs—as occurring in normal market conditions—within their management report. The Board of Statutory Auditors certifies that these relations—essentially of commercial nature—meet company interests. With regards to financial relations, reciprocally agreed interest on financing is adjusted to the contractually established rates on a quarterly basis and in any case is linked to market indicators;
- the Directors did not exercise their right in revaluating existing fixed assets with the exception of the revaluation implemented in the financial statements of 1976, in accordance with Law n. 676/75;
- the Management Report contains all mandatory information required by current norms (Art. 2428 of the Italian Civil Code); the correspondence and coherence of this information with respect to the data and results of the financial statements has been ascertained;
- Overall, we therefore believe that the documents which we are presenting to you supply clear and complete information in light of the principles sanctioned by the Law;
- the provisions issued by the company to its subsidiaries, in accordance with Art. 114, paragraph 2 of LD n. 58/1998, are deemed adequate;
- the Directors have drafted the Group consolidated financial statements as of December 31<sup>st</sup>, 2005—given the obligation put forth by Articles 25 and 27 of LD 127/1991—in compliance with International Financial Reporting Standards. These financial statements have been appropriately drafted for the purposes of presenting a true and fair view of the financial and economic standing of the company and will be filed in the Registry of Companies: the Board of Statutory Auditors has proceeded in drafting its report in relation to these statements;
- auditing of accounting entries was implemented by the auditing company PricewaterhouseCoopers S.p.A. which has issued a statement without criticism of the financial statements of the year and the consolidated financial statements as of December 31<sup>st</sup>, 2005;
- the company—even in previous years—has not implemented value adjustments or allocations within the income statement for the sole purpose of applying tax regulations. As a result, the elimination of prior tax interference is not applicable;
- the net income generated during 2005 by the subsidiary Prima North America Inc. totalling 2,208 thousand Euro has permitted—in compliance with the provisions of Art. 2426 of the Italian Civil Code—a partial restoration (of equal value) of the value of the shareholding valued at purchase cost and written down in previous years for 15,617 thousand Euro;

- in addition to the tasks required by Art. 155 of LD n. 58/1998, the auditing company PricewaterhouseCoopers S.p.A. was entrusted with the task of issuing a Professional Assessment on the economic and financial standing of the Group Prima Industrie as of 31.12.2004, in compliance with Art. 70 of Consob resolution n. 11971/99 and subsequent amendments/supplements; this was required in order to proceed in drafting the informational document relative to the merger operation between Prima Industrie S.p.A. and Fidia S.p.A. The cost of this activity—to be subdivided amongst the two companies—was equal to Euro 70,000 in addition to VAT and direct expenses. In the month of January 2006, the company PricewaterhouseCoopers S.p.A. was entrusted with the task of drafting an Assessment for the consolidation of accounts of the Chinese Joint Ventures for a cost of Euro 22,000 + VAT. To our knowledge there are no tasks entrusted to parties who entertain continuing relations with the company entrusted with the audit;
- in accordance with Art. 2408 of the Italian Civil Code, we have not received any complaints on the part of stockholders with regards to any potentially reprehensible facts;
- no complaints have been presented to us on behalf of stockholders and/or third parties;
- during the course of the year, the Board has expressed the following assessments, in accordance with the law:
  - an assessment with regards to the conferment of the task to the auditing company, in accordance with Art. 159, paragraph 1, of LD n. 58 of Feb. 24<sup>th</sup>, 1998;
  - a favorable assessment on the assignment of compensation to directors invested with particular titles, in accordance with Art. 2389, paragraph 3, of the Italian Civil Code;
  - a favorable assessment on the co-optation of Mr. Pio Pellegrini following the resignation of Mr. Giuseppe Morfino;

### **Significant Operations**

The Board of Statutory Auditors—which is constantly informed by the Directors—has supervised with particular care over the most significant economic and financial operations, even of extraordinary nature, that were implemented by Prima Industrie S.p.A. and its subsidiaries.

These operations include the following:

- *Discontinuance of collaboration agreements with other companies*

The Board notes that Prima Industrie S.p.A. had signed a collaboration agreement on July 8<sup>th</sup>, 2004 with the company Salvagnini BV—a leader in sheet metal production solutions and in integrated production processes—for the purposes of operating together in the engineering and distribution of products as well as within the research and development area. The agreement provided for the appointment of the CEO of each company as members of the Board of Directors of the

counterparty. For this purpose, the Ordinary Stockholders' Meeting of September 23<sup>rd</sup>, 2004 had appointed Mr. Francesco Scarpari as a Director of Prima Industrie S.p.A. while Mr. Gianfranco Carbonato was appointed as director of Salvagnini BV.

In the month of March 2005, the pre-cited agreement was unilaterally cancelled by the counterparty for the reason that it had not generated the expected results in terms of possible commercial and R&D synergies.

As a result, Mr. Francesco Scarpari resigned from the Board of Directors of Prima Industrie S.p.A. and Mr. Gianfranco Carbonato resigned from his office as a member of the Board of Directors of Salvagnini BV.

The resigning director was not replaced since the Meeting of Prima Industrie S.p.A.—convened on April 28<sup>th</sup>, 2005—included the appointment of a new Administrative Body within its agenda of the day.

- *Acquisition of a company branch*

In its meeting of May 13<sup>th</sup>, 2005, the Board of Directors has approved the operation of acquisition of the company branch from Matra a company of the Linde Group, on the part of the subsidiary Prima Industrie GmbH. The activity of Matra in Germany involves the distribution and maintenance of machine tools. This operation became effective as of July 1<sup>st</sup>, 2005, and the acquisition price—resulting from the balance between acquired assets and liabilities and equal to 770 thousand Euro—will be paid, as per contractual agreements, by March 31<sup>st</sup>, 2006. The personnel which will be transferred along with the company branch is equal to 12 units. The acquisition operation has produced a yearly revenue increase of circa 1.5 million Euro.

- *Acquisitions*

In the month of January 2005, Prima Industrie S.p.A. acquired 10% of the share capital of Sintesi – Consortium Corporation which has a share capital of Euro 516,000.

Sintesi has a registered and operating office in Modugno (BA) where Prima Industrie has established a secondary office for research and development; 15 researchers operate in this office.

- *Extraordinary operations*

In its meeting of June 7<sup>th</sup>, 2005, the Board of Directors of the company has examined the opportunity to proceed in a merger between Prima Industrie S.p.A. and Fidia S.p.A., a company from Turin listed in the TechStar segment of Borsa Italiana S.p.A. and operating in the sector of integrated calculation, scanning and milling systems as well as in the electronic controls sector.

This operation would have permitted the realization of important synergies with regards to commercial, R&D, production and company structure costs; it would have also enabled Prima Industrie S.p.A. to expand its activity areas in complementary sectors and would have allowed Fidia S.p.A. to reach a size that is more suitable for global expansion.

Prima Industrie S.p.A. would have incorporated Fidia S.p.A. by merger through a share capital increase for the purposes of the operation.

In the subsequent Board meetings of June 14<sup>th</sup>, 2005, the two companies have appointed Terra Nova Partners of Milan as a common “advisor” for the financial elements and Studio Tosoetio Weigman & Associates of Turin as a common legal advisor. The two companies have appointed Twice Sim S.p.A. as a common financial advisor for the purposes of drafting a “fairness opinion”.

In this meeting the Board has resolved to present a petition to the Court of Turin for the appointment of an expert, as per Art. 2501 *sexies* of the Italian Civil Code.

The Court of Turin has appointed the auditing company Mazar & Guerard S.p.A.—the current auditor of Fidia S.p.A.—as the expert.

In its meeting of June 28<sup>th</sup>, 2005, the Board of Directors of Prima Industrie resolved to approve the following: the share swap ratio in the amount of one share of Prima Industrie S.p.A. for every 2.4 shares of Fidia S.p.A.; the Merger Plan, in compliance with Art. 2501 *ter* of the Italian Civil Code; the Illustrative Report of the Directors, in compliance with Art. 2501 *quinques* of the Italian Civil Code; and to convene the Ordinary and Extraordinary Meeting of Stockholders on Sept. 7/8/9 of 2005, respectively in first, second and third call.

In its meeting of September 2<sup>nd</sup>, 2005 the Board of Directors took note of the Fidia Group summary document which revealed preliminary economic and financial data that substantially differed—in a negative sense—from the data originally used as a basis for the merger. Despite confirming the industrial and strategic validity of a merger by incorporation of Fidia S.p.A. with respect to Prima Industrie S.p.A., given the significant economic impact on the profitability of the incorporating party that would be generated from the results of the Fidia Group, the Board resolved that it could no longer pursue the merger operation with the terms and conditions laid out in the merger plan of June 28<sup>th</sup>, 2005; all further decisions were referred to the stockholders.

With regards to the proposal for a merger by incorporation of Fidia S.p.A. with respect to Prima Industrie S.p.A., the Statutory Auditors have confirmed the fairness of the procedure that was implemented as well as the completeness of the documents that were made available at the registered office in compliance with the provisions of Art. 2501 *ter* (Merger Plan and Report of the Directors), Art. 2501 *sexies* (Expert Report) and Art. 2501 *quater* (Balance Sheet Analysis) of the Italian Civil Code

Mr. Gianfranco Carbonato, the legal representative of Prima Industrie S.p.A., communicated the reasons for not proceeding with the merger to Consob on 11.10.2005.

The Board of Statutory Auditors certifies that, as of today, no further initiatives were pursued on the part of the National Company and Stock Exchange Commission.

#### ▪ *Stockholders' Meeting*

The Ordinary Stockholders' Meeting of May 13<sup>th</sup>, 2005, has approved the financial statements of 12.31.2004 as well as the proposal of modifications for the Self-Governance Code, and has appointed a Board of Directors composed of seven members. The latter include: Mr. Gianfranco Carbonato, Mr. Sandro D'Isidoro, Mr. Fabrizio Lugaresi, Mr. Mario Mauri, Mr. Giuseppe Morfino, Mr. Domenico Peiretti, and Mr. Marco Pincioli. The annual remuneration that was deliberated from this meeting and which is due to each Director was equal to 12,000 Euro (gross). The



office of Chairman of the Board of Directors was attributed to Mr. Gianfranco Carbonato. The Board also included two independent directors: Mr. Giuseppe Morfino and Mr. Marco Pincioli

The above-mentioned Ordinary Stockholders' Meeting also resolved to confer the task of auditing the statutory and consolidated financial statements, as well as the auditing of the half-year reports and all activities required by Art. 155 of Legislative Decree n. 58 of February 24<sup>th</sup>, 1998 and its subsequent amendments/supplements, to PricewaterhouseCoopers for the years 2005, 2006 and 2007. The following annual compensation was established:

Euro 35,000 for the auditing of the financial statements of the year;

Euro 8,000 for the auditing of the consolidated financial statements;

Euro 17,000 for limited auditing of the half-year reports;

Euro 4,000 for periodical supervision over proper bookkeeping, as required by Art. 155, paragraph one, letter a) of Legislative Decree n. 58 of February 24<sup>th</sup>, 1998 and its subsequent amendments/supplements.

In response to a proposal by the auditing company, the Board of Statutory Auditors had expressed its approval in advance.

The Ordinary Stockholders' Meeting of September 8th, 2005 appointed Mr. Pio Pellegrini—an independent director who was previously co-opted as a director of the company as a result of the resignation of Mr. Giuseppe Morfino on June 7<sup>th</sup>, 2005—as a member of the Board of Directors

The same Ordinary Stockholders' Meeting revoked its resolution of 5.14.2004 regarding the purchase of treasury shares and resolved to delegate the purchase and sale—even partial—of treasury shares of Prima Industrie S.p.A. to the Board of Directors. This operation was set at a maximum number of 200,000 shares for a minimum purchase and sales price of 2.5 Euro per share and a maximum purchase and sales price of 17.533 Euro per share. Sales outside of the market must be implemented with an agreed price that does not generate capital losses for the company.

The Extraordinary Stockholders' Meeting of September 8th, 2005—convened for the approval of the merger by incorporation plan relative to Fidia S.p.A. with respect to Prima Industrie S.p.A.—resolved to no longer pursue the merger operation with the terms and conditions laid out in the merger plan that was approved by the Board of Directors on June 28<sup>th</sup>, 2005.

- *Assignment of proxies to Directors*

In its meeting of May 13th, 2005, the Board of Directors appointed Mr. Gianfranco Carbonato as the Chief Executive Officer of the company for the three year period 2005/2007 and conferred the relative powers.

- *Committees*

In its meeting of May 13<sup>th</sup>, 2005, the Board of Directors appointed the following members of the Remuneration Committee and the Internal Auditing Committee: the Directors Sandro D'Isidoro, Giuseppe Morfino (independent) and Marco Pincirolì (independent). Mr. Marco Pincirolì was appointed as the chairman of these two committees. Mr. Massimo Ratti, the Corporate Chief Financial Officer, was appointed as the Secretary of the Board of Directors as well as Secretary of the other two above-mentioned Committees.

Following the resignation of Mr. Giuseppe Morfino on June 7<sup>th</sup>, 2005, the Board of Directors—in its meeting of June 14<sup>th</sup>, 2005—co-opted Mr. Pio Pellegrini as a new director with the approval of the Board of Statutory Auditors. The Board also resolved to appoint Mr. Pellegrini as a member of the Internal Auditing Committee and a member of the Remuneration Committee in replacement of Mr. Morfino.

In its meeting of September 28<sup>th</sup>, 2005, the Board of Directors resolved to appoint Mr. Pio Pellegrini as the Chairman of the Remuneration Committee in replacement of Mr. Marco Pincirolì—who is already the Chairman of the Internal Auditing Committee—for the purposes of avoiding an excessive concentration of tasks.

- *Business plan for the years 2005-2007*

The Board of Statutory Auditors has taken note of the fact that the Board of Directors—in its meeting of 06.14.2005—has approved the Business Plan of the company for the years 2005-2007.

- *Research and Development Activity*

The Board of Statutory Auditors reported that the amount for R&D activities charged to the income statement of the parent company was equal to 4.2 million Euro for the year closing on 12.31.2005; this was equal to 5.75% of total revenues. The Group spent 7.7 million Euro—equal to 6.97% of revenue—for R&D activities during the year.

- *STAR Segment*

As of September 19<sup>th</sup> 2005, Prima Industrie S.p.A. became part of the stock exchange segment known as “STAR” following the new subdivision of the financial instruments of the stock exchange.

- *Purchase of treasury shares*

In compliance with the meeting resolution of September 8<sup>th</sup> 2005, Prima Industrie S.p.A. proceeded in acquiring treasury shares; this was essentially undertaken in order to support the stock price.

On the date of year closing, the treasury shares held in the portfolio numbered 8,000 with an average weighted book value price of Euro 11.609, totalling Euro 93,000 overall. The Board of Statutory Auditors notes that your company has entrusted Banca Intermobiliare with the activity of “specialist” as well trading of



stocks.

- *Stock option plan*

The Board of Statutory Auditors certifies that as of today there is no stock option plan in effect for the employees of the company and of the Group.

- *New loans initiated during the year*

In particular, the Board of Statutory Auditors reports that the company has had access to the following new financing sources: financing for 2 million Euro issued by Fortis Bank in the month of January 2005 for a duration of 18 months minus one day at the 6-month Euribor rate plus a spread of 1.3; financing for 1.5 million Euro issued by Banca Intesa S.p.A. on the 19<sup>th</sup> of May of 2005 for a duration of 18 months minus one day at the 3-month Euribor rate and with a lump-sum repayment on November 18<sup>th</sup>, 2006; and financing for 1.5 million Euro issued by Banca Popolare di Milano on the 20<sup>th</sup> of May of 2005 for a duration of 18 months minus one day at the 3-month Euribor rate plus a spread of 0.80 with monthly installment repayment.

- *Share capital increases*

In its meeting of May 13<sup>th</sup> 2005, the Board of Directors resolved to proceed in the undersigning of a share capital increase of the joint venture “Shenyang Prima Laser Machine Co. Ltd” for an amount totalling 500,000 dollars by means of the conversion of commercial receivables equal to 400,000 dollars and liquidity equal to 100,000 dollars. The Board of Statutory Auditors notes that the current share capital of Shenyang Prima is equal to two million Euro and the shareholding quota of Prima Industrie S.p.A. remains unchanged at 50% of the share capital of Shenyang Prima Laser Machine Co. Ltd..

In its meeting of July 15<sup>th</sup> 2005, the Board of Directors approved to increase the share capital of the subsidiary Prima GmbH to 500,000 Euro.

The subsidiary Prima North America Inc.—with a share capital of 24 million dollars—benefited from a share capital increase of 2 million dollars during the course of 2005; this was implemented by the parent company through the conversion of financial receivables.

During the course of 2005, the subsidiary Prima Scandinavia AB received a contribution of 115 thousand Euro in its capital account through the conversion of financial receivables

- *Shareholding write-downs/value reinstatements*

The financial statements of 12.31.2005 of Prima Industrie S.p.A. acknowledged the partial reinstatement of the value of the shareholding in Prima North America Inc. for 2208 thousand Euro in relation to the 2005 net income of the American subsidiary. The shareholding was in previous year subject to a write-down of 15,617 thousand Euro following the cumulative losses of the company.

The shareholding in Prima Industries GmbH increased by 474 thousand Euro by effect of a share capital increase and was written down for 149 thousand Euro; the latter corresponds to past losses of the company which were re-classified in the entry "Provisions and Charges".

The shareholding held in the Chinese joint venture Shenyang Prima Laser Machine Company—equal to 50% of the share capital of the latter—increased by 416 thousand Euro as a result of a share capital increase; it was written down for 75 thousand Euro, an amount corresponding to half of the loss reported on the financial statements of the shareholding.

The shareholding in the Japanese joint venture SNK Prima Co. was written down for 50 thousand Euro—an amount proportional to the company's loss for the year—at the rate of 50%.

The shareholding in the subsidiary Prima Scandinavia AB increased by 156 thousand Euro as a result of the conversion of commercial receivables of the parent company into capital contribution. The same shareholding was then written down for 162 thousand Euro—corresponding to the accumulated loss in 2005 of Prima Scandinavia AB.

The shareholding held in the Chinese joint venture Shanghai Unity Prima was not subject to value adjustments since the year is expected to close with net income.

- *Write down of receivables/provisions*

The financial difficulties emerging during the course of the year from a distributor of Prima Industrie S.p.A. have been constantly monitored by the "Credit Manager" and by the entire structure of Prima Industrie S.p.A. Receivables due from this company total 1,588,248 Euro; 750 thousand Euro have been allocated in the relative risk reserve against these receivables for precautionary purposes.

- *Stock price movements*

Movements in the stock price during the course of December—which reached values high enough to justify a suspension due to an excessive price hike—were not linked to significant events or operations. Nevertheless, the company has received a general expression of interest on the part of a Chinese industrial entity (Han's Laser Technology Co. Ltd.).

Upon request of Consob, a special press release was issued on 12.14.2005.

- *Net financial position*

On the closing date of the year, the net financial position of Prima Industrie S.p.A. was equal to –6,698 thousand Euro versus the –9,433 thousand Euro of the previous year. The net financial position of the Group was equal to –7,733 thousand Euro versus the –15,419 thousand Euro of the previous year. This improvement is due to the increase in cash flow generated from operational management and from the positive management of net current assets which grew less than revenues.

The Board of Statutory Auditors reports that the ratio between debt and equity improved for the third consecutive year, falling from 0.33 in December 31<sup>st</sup>, 2004 to 0.22 in December 31<sup>st</sup>, 2005.

### **Significant events following the closing of the year on December 31st, 2005**

With regards to that falling under our competence, we have taken note of the main events of significance occurring after the closing of the year:

- *Acquisitions*

The Board of Statutory Auditors takes note of the fact that—on 01.12.2006—the subsidiary Prima Electronics S.p.A. increased its shareholding in the company M.L.T.A. S.r.l., going from 41.63% to 57.84% by means of the undersigning of a share capital increase of 65,000 Euro. This amount was fully paid up during the extraordinary meeting that was convened for this purpose.

M.L.T.A. S.r.l. is equipped with strong competencies in the sector of power electronics for laser sources.

- *Creation of new Joint Ventures*

The Board of Statutory Auditors takes note of the fact that—in the month of November 2005—the subsidiary Prima North America Inc. undersigned an agreement with Wuhan Optics Valley Laser Technology for the creation of a new joint venture company for the purposes of producing lasers.

The new company—with a registered office in Wuhan (China)—is equipped with a share capital of 6.8 million dollars and the stake of Prima North America Inc. will be equal to 30%.

- *Treasury shares*

On February 28th, 2006, Prima Industrie S.p.A. held 4,750 treasury shares in its portfolio with an average weighted book value price of Euro 13.0284 per share versus the 8,000 shares held in its portfolio with an average weighted book value price of Euro 11.609 per share on 12.31.2005.

- *Stock price movements*

The increase in the price of Prima Industrie stock during the first days of March has made the resolution for the purchase of own shares—adopted by the Ordinary Stockholders' Meeting on Sept.8<sup>th</sup>, 2005—inapplicable; this resolution had delegated the Board of Directors with the task of purchasing and selling the treasury shares of Prima Industrie S.p.A. for 18 months—even by lots—for a maximum number of 200,000 shares, a minimum purchase and sales price of 2.5 Euro per share and a maximum purchase and sales price of 17.533 Euro per share. As a result, the Ordinary Meeting of the subsidiary Prima Electronics S.p.A. deliberated—on March 9<sup>th</sup>, 2006—to delegate the Board of Directors with the task of purchasing and selling the shares of the parent company Prima Industrie S.p.A. for three months, in accordance with Art.2359 *bis* of the Italian Civil Code as well as Art.132 of the Unified Text on Finance and Art.144 of the Regulations of Issuing Entities, while awaiting the adoption of the new resolution on this issue on the part of the Ordinary Stockholders' Meeting of Prima Industrie S.p.A. This will also allow Banca Intermobiliare to continue its mandatory specialist activity, as required by the regulations of Borsa Italiana S.p.A. Prima Electronics S.p.A. may purchase and sell a maximum number of 110,000 shares of Prima Industrie S.p.A. at a minimum purchase and sales price of 2.5 Euro per share and a maximum purchase and sales price of 26.375 Euro per share

- *Information on the Corporate Governance system*

The Board of Statutory Auditors takes note of the fact that—in compliance with the Regulations of the New Stock Exchange (“Nuovo Mercato”) of Borsa Italiana S.p.A., section IA.2.13 paragraph 2—the Board of Directors of Prima Industrie S.p.A. has proceeded in presenting the required information on corporate governance.

- *Internal Dealing*

In its meeting of 02.27.2006, the Board of Directors has provided Mr. Gianfranco Carbonato with the mandate of preparing the new regulations on Internal Dealing and Market Abuse with the support of legal consultants. The Board of Directors will provide an assessment of these topics during its meeting convened for March 21<sup>st</sup>, 2006.

- *Hiring of a Controller*

During the month of February, the company hired a Controller for the foreign companies in support of the finance area.

- *2006 Forecasts*

The Board of Statutory Auditors certifies that the Directors forecast a positive recovery of the reference market in 2006; this is also confirmed by the significant growth of orders during the month of January. These parameters have induced the Directors to trust in further improvement of the Group's performance.

Dear Stockholders,

in light of the above and given the legal auditing performed by the auditing company PricewaterhouseCoopers S.p.A.—which provided a positive assessment on the financial statements of the year—as well as the information that was made available, the Board of Statutory Auditors proposes the approval of the Financial Statements of your company closing on December 31<sup>st</sup>, 2005 as well as the approval of proposal formulated by the Board of Directors with regards to the allocation of the net income of the year and the distribution of dividends. We also express our strong appreciation for the performance of the Directors who have allowed for the attainment of a result that will permit the distribution of a dividend to stockholders that is double that of the previous year.

Collegno, March 15th, 2006

The Board of Statutory Auditors

(Mr. Riccardo Formica) - Chairman

(Mr. Andrea Mosca) - Statutory Auditor

(Mr. Roberto Petrignani) – Statutory Auditor

## **PRIMA INDUSTRIE GROUP**

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### **REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS RELATIVE TO THE YEAR CLOSING ON 12/31/2005**

Dear Stockholders,

the Board of Directors of Prima Industrie S.p.A. has drafted and approved the consolidated financial statements of December 31<sup>st</sup>, 2005, in compliance with Legislative Decree n. 127 of April 9<sup>th</sup>, 1991; it was delivered during the meeting of February 27<sup>th</sup>, 2006.

The consolidated financial statements of the Prima Industrie Group—which are hereby presented to you—report a net income of Euro 6,107,631 and are the first annual consolidated financial statements that are drafted in compliance with the International Financial Reporting Standards as ratified by the European Commission (IAS/IFRS).

Following the entry into force of European Regulations n. 1606 of July 19<sup>th</sup>, 2002, the Prima Industrie Group adopted the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The accounting principles applied to the consolidated financial statements closing on December 31<sup>st</sup>, 2005 are therefore in compliance with those adopted for the IFRS re-statement of the opening balance sheet of January 1<sup>st</sup>, 2004 as well as with the 2004 income statement and the balance sheet of December 31<sup>st</sup>, 2004.

In compliance with CONSOB recommendations, the auditing company PricewaterhouseCoopers S.p.A. was entrusted with the task of implementing a complete audit of the reconciliations of the net consolidated stockholders' equity of the Group as of January 1<sup>st</sup>, 2004 and December 31<sup>st</sup>, 2004—as well as of the consolidated result for the year closing on December 31<sup>st</sup>, 2004 accompanied by the relative explanatory notes.

During the course of the year, the Board of Statutory Auditors has implemented the supervisory activities required by the law and has been informed in detail by the Board of Directors of the parent company with regards to the most significant economic and financial operations—even of extraordinary nature—that were undertaken within the realm of group relations.

We have verified that the operations which were deliberated and executed were in accordance with the law and the articles of association as well as not being in contrast with meeting resolutions or in potential conflict of interest while ensuring compliance with the principles of proper management.

The Board of Statutory Auditors has been particularly careful in reviewing intra-group operations during the year, noting the regularity of the latter; these operations were primarily of commercial nature; the parent company—from a financial point of view—has supported its subsidiaries when required and has also converted financial receivables totaling 2 million Euro into the capital of Prima North America Inc. (as was done in the previous year).

The reviews implemented by PricewaterhouseCoopers S.p.A., entrusted with the audit, certify that the values expressed in the consolidated financial statements correspond to the accounting entries of the parent company as well as to the values of the financial statements of the subsidiaries and the relative information communicated formally by the latter.

The financial statements and the reconciliation statements which were drafted according to the IAS/IFRS by the corporate bodies of competence and sent from the subsidiaries to the parent company for the purposes of drafting the consolidated financial statements were subject to review on the part of the internal auditing bodies and entities of the individual companies as well as by PricewaterhouseCoopers S.p.A.; this was implemented within the realm of the procedures that are followed for the auditing of consolidated financial statements.

Review by the Board of Statutory Auditors did therefore not extend to these financial statements.

The Board of Statutory Auditors notes that the financial statements of the subsidiaries Prima Electronics S.p.A. and Prima North America Inc. are autonomously certified by PricewaterhouseCoopers S.p.A. itself which certifies the financial statements of the parent company.

It should be noted that we have acquired the opportune information in relation to the report on the consolidated financial statements issued by the auditing company, in accordance with Art. 156 of Legislative Decree n. 58/1998 and its subsequent supplements and amendments, which is exempt from any remark.

The financial statements are composed of a balance sheet, income statement, statement of variations in stockholders' equity, cash flow statement, and explanatory notes - notes to the financial statements.

As in the previous year, your Board of Directors has drafted a single Management Report which jointly supplies all the information that is prescribed in relation to both the parent company as well as the individual subsidiaries.

We hereby refer to this report which adequately illustrates the economic and financial position of the company as well as management trends during the course of 2005 and the forecasts for 2006 in relation to all the companies that are subject to consolidation.

The review we have implemented on this report has highlighted its compliance with the consolidated financial statements of the Group.

The explanatory notes - notes to the financial statements highlight the general criteria for drafting the consolidated financial statements as well as the criteria that are applied in the valuation of individual entries.



The consolidated financial statements report corresponding data of the previous year for comparative purposes; these have been re-stated in compliance with the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS).

The determination of the scope of consolidation—as well as the choice of consolidation principles for equity investments and the procedures that were adopted—reflect the provisions of Legislative Decree n. 127 of 9/4/1991, in compliance with the IAS and IFRS. The drafting of the consolidated financial statements is therefore to be considered technically correct and overall in accordance with specific regulations.

**With regards to that falling under the competence of the Board of Statutory Auditors, it should be noted that:**

- the consolidated financial statements of the Prima Industrie Group include the financial statements of Prima Industrie S.p.A., the parent company, Prima Electronics S.p.A., Prima North America Inc., Prima Industrie GmbH, Prima Industrie UK Ltd., and Prima Scandinavia AB, all entirely controlled.
- The equity investments of Prima Industrie which were not part of the scope of consolidation were Shenyang-Prima Laser Machine Company Ltd, SNK Prima Company Ltd, MLTA S.r.l. and Shanghai Unity Prima Laser Machine Company Ltd and Sintesi S.c.p.a. The Board of Statutory Auditors also reports that the equity investments in the companies Rambaudi Industriale S.p.A., Macro Meccanica S.p.A. (in liquidation) and Mechanical Industries Srl were written off from the 2002 financial statements;
- the subsidiaries were included in the consolidated financial statements by means of the line-by-line method—in other words, by incorporating the assets and liabilities, as well as the proceeds and charges, of the individual companies subject to consolidation;
- the auditing techniques which were implemented during the drafting of the financial statements, and which we present for your review, are suitable for the purposes of ensuring the proper use of the data transmitted by the shareholdings;
- consolidation adjustments take their deferred tax effect into account;
- tax liabilities for current and deferred taxes totalled 2,027,955 euro and 2,502,156 euro, respectively;
- the financial statements highlight a net consolidated stockholders' equity of 30,893,213 Euro versus the stockholders' equity of the parent company determined by Italian accounting principles and equal to 32,029,159 Euro.



Dear Stockholders,

on the basis of the implemented audits, the Board of Statutory Auditors agrees upon the content and form of the Group Consolidated Financial Statements of December 31<sup>st</sup>, 2005.

Collegno, 15<sup>th</sup> of March 2006

The Board of Statutory Auditors

(Mr. Riccardo Formica) - Chairman

(Mr. Andrea Mosca) - Statutory Auditor

(Mr. Roberto Petrignani) – Statutory Auditor

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

**PRIMA INDUSTRIE GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS AS AT 31  
DECEMBER 2005**

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

PricewaterhouseCoopers SpA

To the Shareholders of  
PRIMA INDUSTRIE SpA

1. We have audited the consolidated financial statements of the PRIMA INDUSTRIE SpA and its subsidiaries ("PRIMA INDUSTRIE GROUP") as of 31 December 2005. These comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flow, the consolidated statement of changes in equity and the related notes. These consolidated financial statements are the responsibility of Prima Industrie's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. These first time consolidated financial statements are in accordance with the International Financial Reporting Standards ("IFRS"), as adopted by the European Commission.
2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

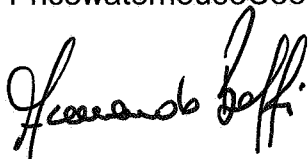
The audit carried out on the financial statements of some subsidiaries and associates, which represents approximately 8 per cent of the consolidated assets and 7 per cent of consolidated revenues, is responsibility of another auditors.

The comparatives data included in the consolidated financial statements as of 31 December 2005 are prepared in accordance with the same accounting principles. In addition, the chapter number 10 of the notes disclose the effects for the PRIMA INDUSTRIE GROUP of the first time adoption of the IFRS, endorsed by the European Commission, also including the statements of reconciliation to IFRS, as foreseen by IFRS 1. These statements of reconciliation were approved and published, for the first time, in the interim consolidated financial statements as of 30 June 2005; reference should be made to our reports dated 30 September 2005.

3. In our opinion, the consolidated financial statements of PRIMA INDUSTRIE GROUP as of 31 December 2005 is in accordance with the IFRS endorsed by the European Commission; accordingly, they give a true and fair view of the consolidated financial position, the consolidated results of the operation, the consolidated statement of cash flow and the consolidated statement of changes in equity of PRIMA INDUSTRIE GROUP for the year then ended.

Turin, 14 March 2006

PricewaterhouseCoopers SpA



Armando Boffi  
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.

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

**PRIMA INDUSTRIE SPA**

**FINANCIAL STATEMENTS AS AT 31 DECEMBER 2005**

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

To the Shareholders of  
PRIMA INDUSTRIE SpA

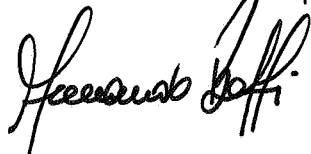
1. We have audited the financial statements of PRIMA INDUSTRIE SpA (or "the Company") as of 31 December 2005. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference is made to our report dated 23 March 2005.

3. In our opinion, the financial statements of PRIMA INDUSTRIE SpA as of 31 December 2005 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

Turin, 14 March 2006

PricewaterhouseCoopers SpA



Armando Boffi  
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation.