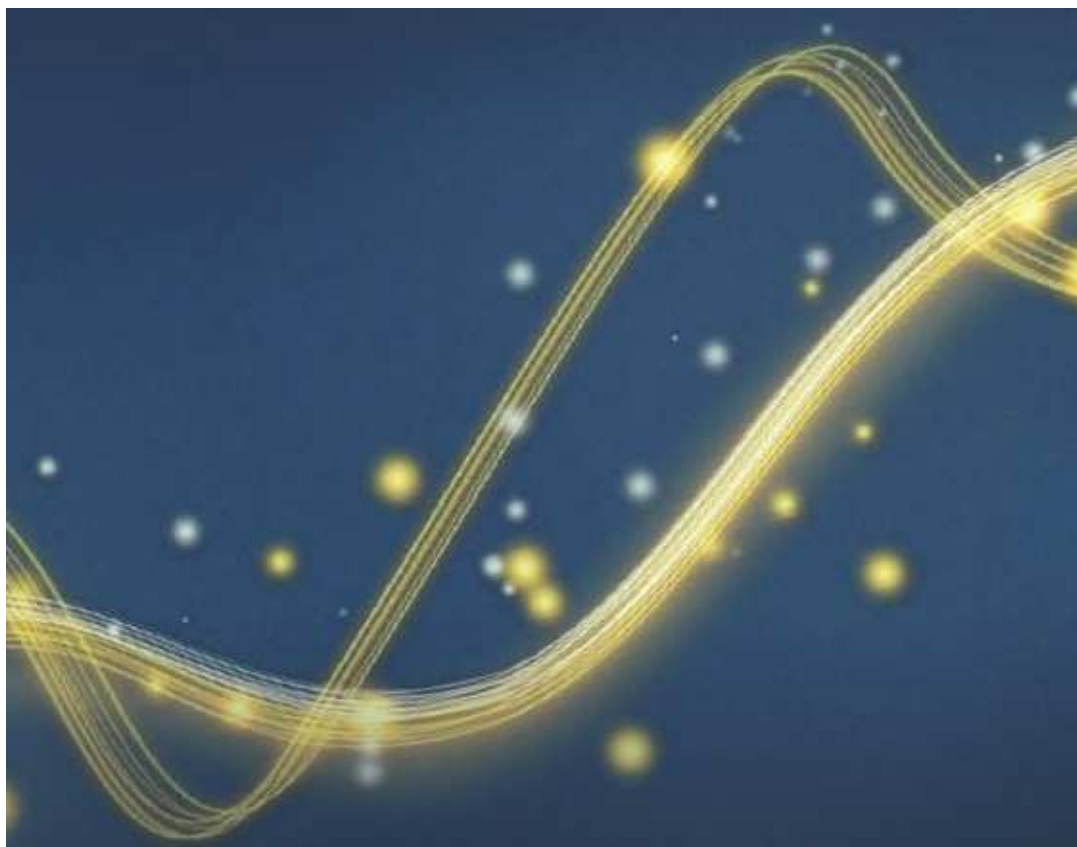




**INTERIM FINANCIAL REPORT**  
**AS OF SEPTEMBER 30<sup>th</sup>, 2016**



Board of Directors - November 11<sup>th</sup>, 2016

**PRIMA INDUSTRIE S.p.A.**  
Registered office: Via Antonelli 32 - Collegno (Turin)  
Share Capital € 26.208.185 (fully paid-up)  
Company Register of Turin and VAT number 03736080015

## MANAGEMENT AND CONTROL

### Board of Directors

Executive Chairman	Gianfranco Carbonato
Managing Directors	Ezio G. Basso <sup>(1)</sup> Domenico Peiretti <sup>(2)</sup>
Independent Directors	Chiara Damiana Burberi Donatella Busso Sandro D'Isidoro Enrico Marchetti Mario Mauri
Other Directors	Rafic Y. Mansour Michael R. Mansour

### Internal Control Committee

Chairman	Enrico Marchetti
Members	Chiara Damiana Burberi Donatella Busso

### Remuneration Committee

Chairman	Mario Mauri
Members	Sandro D'Isidoro Rafic Y. Mansour

### Board of Statutory Auditors

Chairman	Franco Nada
Regular Auditors	Maura Campa Roberto Petrignani
Alternate Auditors	Roberto Coda Gaetana Laselva

### Audit Company

EY SpA

### Expiry of Mandates and Appointments

The Board of Directors shall remain in office until the approval of 2016 Financial Statements.

The Board of Statutory Auditors shall remain in office until the approval of 2018 Financial Statements.

The Audit company was appointed by the Stockholders's Meeting held on April 29th, 2008 for the period 2008 -2016.

<sup>(1)</sup> Ezio G.Basso is also the General Manager of PRIMA INDUSTRIE SpA

<sup>(2)</sup> Domenico Peiretti is also the Managing Director and General Manager of PRIMA ELECTRO SpA

## INDEX

<b>CHAPTER 1. PRIMA INDUSTRIE GROUP STRUCTURE AND PROFILE AS OF SEPTEMBER 30<sup>TH</sup>, 2016</b>	<b>5</b>
PRIMA INDUSTRIE GROUP STRUCTURE	5
PRIMA INDUSTRIE GROUP PROFILE	6
CONSOLIDATION AREA	7
<b>CHAPTER 2. INTRODUCTION</b>	<b>10</b>
FOREWORD	10
ALTERNATIVE PERFORMANCE INDICATORS	10
CURRENCY EXCHANGE RATES	11
<b>CHAPTER 3. GROUP INTERIM MANAGEMENT REPORT</b>	<b>13</b>
SIGNIFICANT EVENTS OF THE PERIOD	13
MACRO ECONOMIC CONTEXT	13
REVENUES AND PROFITABILITY	14
NET FINANCIAL POSITION	17
TRADE ASSETS AND ORDER PORTFOLIO	18
RESEARCH AND DEVELOPMENT	18
OPERATIONS WITH RELATED PARTIES	18
STOCK TREND AND TREASURY STOCK	19
SHAREHOLDING STRUCTURE	19
FORESEEABLE DEVELOPMENTS OF MANAGEMENT	20
EVENTS OCCURRING AFTER THE REFERENCE DATE OF THE FINANCIAL STATEMENT	20
ATYPICAL AND UNUSUAL TRANSACTIONS	20
<b>CHAPTER 4. ECONOMIC PERFORMANCE BY SEGMENT</b>	<b>22</b>
PRIMA POWER	22
PRIMA ELECTRO	23
<b>CHAPTER 5. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF PRIMA INDUSTRIE GROUP AS OF SEPTEMBER 30<sup>TH</sup>, 2016</b>	<b>25</b>
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	25
CONSOLIDATED INCOME STATEMENT	26
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	27
CONSOLIDATED STATEMENT OF CHANGES OM SHAREHOLDERS' EQUITY	28
CONSOLIDATED CASH FLOW STATEMENT	29
<b>CHAPTER 6. EXPLANATORY NOTES</b>	<b>31</b>
FORM AND CONTENT	31
ACCOUNTING PRINCIPLES	31
<b>EXPLANATORY NOTES</b>	<b>33</b>
ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30 <sup>TH</sup> , 2016	48

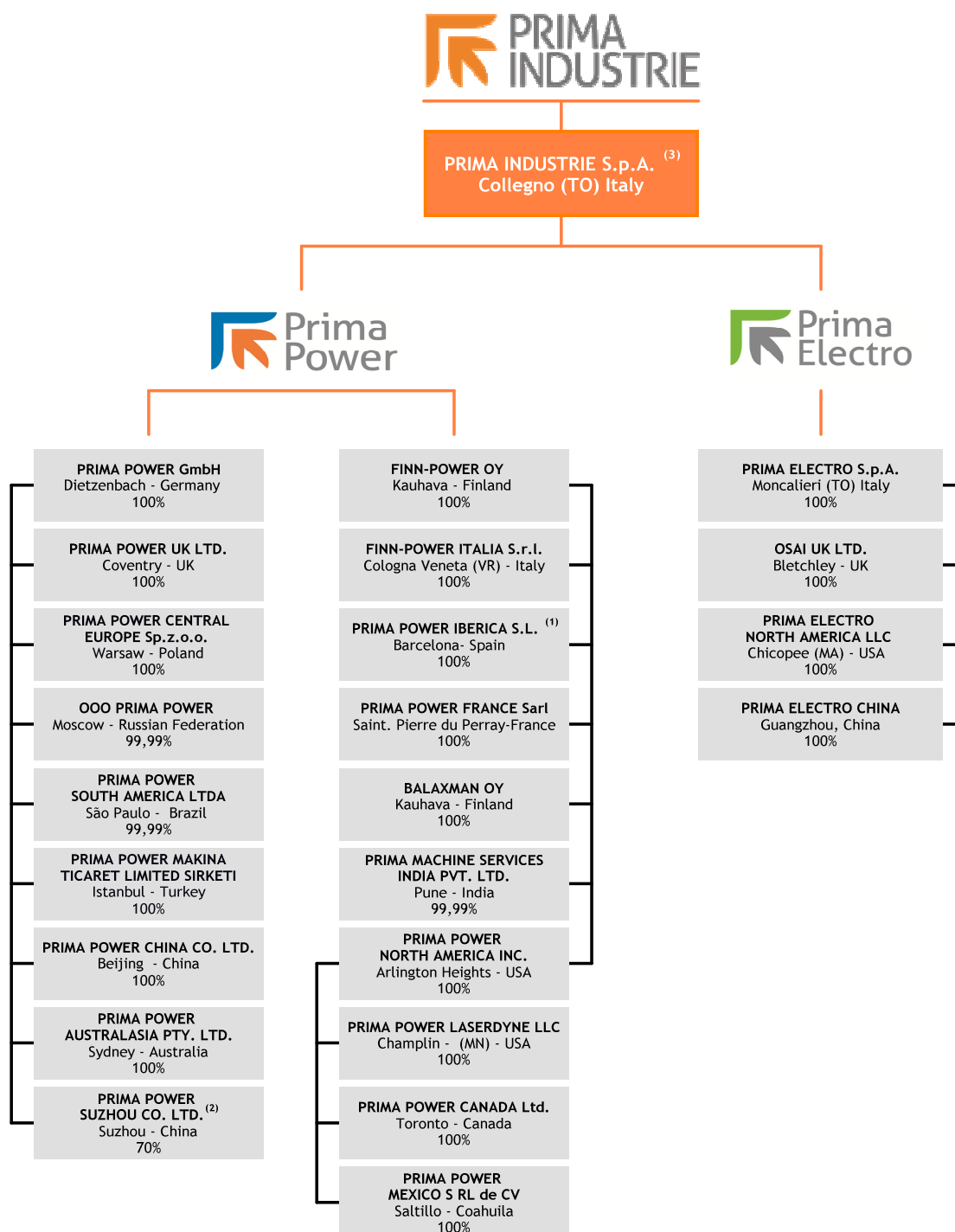
# CHAPTER 1

Prima Industrie Group Structure and profile  
as of September 30<sup>th</sup>, 2016



## CHAPTER 1. PRIMA INDUSTRIE GROUP STRUCTURE AND PROFILE AS OF SEPTEMBER 30<sup>TH</sup>, 2016

### PRIMA INDUSTRIE GROUP STRUCTURE



The statement on this page represents the corporate situation of PRIMA INDUSTRIE Group on September 30<sup>th</sup>, 2016.

1) FINN-POWER OY holds 78% of PRIMA POWER IBERICA SL (the remaining 22% is held by PRIMA INDUSTRIE SpA).

2) PRIMA INDUSTRIE SpA holds 70% of PRIMA POWER SUZHOU Co. Ltd. (the remaining 30% is held by third parties).

3) PRIMA INDUSTRIE SpA is included in PRIMA POWER Division for Reporting purposes.

## PRIMA INDUSTRIE GROUP PROFILE

The PRIMA INDUSTRIE Group is a market leader in the development, manufacture and sale of laser systems for industrial applications and of machines to process sheet metal, besides in the fields of industrial electronics and laser sources.

The Parent Company PRIMA INDUSTRIE SpA, established in 1977 and listed in the Italian Stock Exchange since 1999 (currently MTA - STAR segment), designs and manufactures high-power laser systems for cutting, welding and surface treatment of three-dimensional (3D) and flat (2D) components.

The PRIMA INDUSTRIE Group boasts over 35 years of experience and has over 12,000 machines installed in more than 70 Countries. Owing also to the acquisition of the FINN-POWER Group in February 2008, it has stably ranked among world leaders in the sector of sheet metal processing applications. In recent years, the Group has reorganized its structure, branching its *business* in the following two divisions:

- PRIMA POWER for laser machines and sheet metal processing;
- PRIMA ELECTRO for industrial electronics and laser technologies.

The **PRIMA POWER** division includes the design, manufacture and sale of:

- cutting, welding and punching machines for three-dimensional (3D) and two-dimensional (2D) metallic components;
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

This division owns manufacturing plants in Italy (PRIMA INDUSTRIE SpA and FINN-POWER ITALIA Srl), in Finland (FINN-POWER OY), in the United States (PRIMA POWER LASERDYNE LLC), in China (PRIMA POWER Suzhou Co. Ltd.) and has direct sales and customer service facilities in France, Switzerland, Spain, Germany, the United Kingdom, Belgium, Poland, Czech Republic, Lithuania, Hungary, Russia, Turkey, USA, Canada, Brazil, China, India, South Korea, Australia and the United Arab Emirates.

The **PRIMA ELECTRO** division includes the development, construction and sale of electronic power and control components, and high-power laser sources for industrial applications, intended for the machines of the Group and third customers. The division has manufacturing plants in Italy (PRIMA ELECTRO SpA) and in the United States (PRIMA ELECTRO NORTH AMERICA LLC.), as well as sales & marketing facilities in the United Kingdom and China.

Over 35 years after its establishment, the mission of the PRIMA INDUSTRIE Group continues to be that of systematically expanding its range of products and services and to continue to grow as a global supplier of laser systems and sheet metal processing systems for industrial applications, including industrial electronics, markets that demand top-range technology and where growth rates are quite good, though in the presence of a cyclical context.

## CONSOLIDATION AREA

There were no changes in the area of consolidation for the first nine months of 2016.

On September 30<sup>th</sup>, 2016 the subsidiaries listed in the statements below have been fully consolidated.

## SUBSIDIARIES

PRIMA POWER	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
FINN POWER OY	Metallitie 4, FI - 62200 Kauhava, FINLAND	€ 49.417.108	100%	Line-by-line method
FINN-POWER Italia S.r.L.	Viale Artigianato 9, 37044, Cologna Veneta (VR), ITALY	€ 1.500.000	100%	Line-by-line method
PRIMA POWER LASERDYNE LLC	8600, 109th Av. North, Champlin, MN 55316, U.S.A.	USD 200.000	100%	Line-by-line method
PRIMA POWER SUZHOU Co. LTD.	Xinrui Road 459, Wujiang Ec. & Tech. Develop. Zone, Suzhou City Jiangsu Prov. CHINA	USD 8.000.000	70%	Line-by-line method
PRIMA POWER NORTH AMERICA Inc.	555W Algonquin Rd., Arlington Heights, IL 60005, U.S.A.	USD 10.000	100%	Line-by-line method
PRIMA POWER CANADA Ltd.	390 Bay Street Suite 2800 Toronto, Ontario M5H 2Y2 CANADA	CAD 200	100%	Line-by-line method
PRIMA POWER MEXICO S DE RL DE CV	Campo Real, 121 FRACC. Valle Real, Saltillo, Coahuila C.P. 25198 MEXICO	USD 250	100%	Line-by-line method
PRIMA POWER GmbH	Lise-Meitner Strasse 5, Dietzenbach, GERMANY	€ 500.000	100%	Line-by-line method
PRIMA POWER IBERICA S.L.	C/Primer de Mayo 13-15, 08908 L'Hospitalet de Llobregat, Barcelona, SPAIN	€ 6.440.000	100%	Line-by-line method
PRIMA POWER CENTRAL EUROPE Sp.z.o.o.	Ul. Holenderska 6 - 05 - 152 Czosnów Warsaw, POLAND	PLN 350.000	100%	Line-by-line method
OOO PRIMA POWER	Ordzhonikidze str., 11/A - 115419, Moscow - RUSSIAN FEDERATION	RUB 4.800.000	99,99%	Line-by-line method
PRIMA POWER FRANCE Sarl	Espace Green Parc , Route de Villepècle, 91280 St. Pierre du Perray, FRANCE	€ 160.005	100%	Line-by-line method
PRIMA POWER MAKINA TICARET LIMITED SİRKETİ	Soğanlık Yeni Mah. Bakkesir Cad. Uprise Elite Teras Evler B1 B Dupleks Gül Blok Daire:3 Kartal - Istanbul, TURKEY	TRY 1.470.000	100%	Line-by-line method
PRIMA POWER UK LTD	Unit 1, Phoenix Park, Bayton Road, Coventry CV7 9QN, UNITED KINGDOM	GBP 1	100%	Line-by-line method
PRIMA MACHINE SERVICES INDIA PVT. LTD.	Plot No A-54/55, H Block, MIDC, Pimpri, Pune - 411018, Maharashtra, INDIA	Rs. 7.000.000	99,99%	Line-by-line method
PRIMA POWER SOUTH AMERICA Ltda	Av Fuad Lutfalla, 1,182 - Freguesia do Ó - 02968-00, Sao Paulo BRASIL	R\$ 4.471.965	99,99%	Line-by-line method
PRIMA POWER CHINA Company Ltd.	Room 2006, Unit C, Tower 1, Wangjing SOHO, Chaoyang District, Beijing, P.R. CHINA	RMB 2.038.778	100%	Line-by-line method
PRIMA POWER AUSTRALASIA Pty. LTD.	Minter Ellison, LEVEL 3, 25 National circuit, Forrest, ACT, 2603 AUSTRALIA	A\$ 1	100%	Line-by-line method
BALAXMAN OY	Metallitie 4, FI-62200 Kauhava, FINLAND	€ 2.523	100%	Line-by-line method

## SUBSIDIARIES

PRIMA ELECTRO	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
PRIMA ELECTRO S.p.A.	Strada Carignano 48/2, 10024 Moncalieri, (TO) ITALY	€ 15,000,000	100%	Line-by-line method
PRIMA ELECTRO NORTH AMERICA LLC.	711 East Main Street, Chicopee, MA 01020, U.S.A.	USD 24,119,985	100%	Line-by-line method
PRIMA ELECTRO (CHINA) Co.Ltd.	23G East Tower, Fuxing Shangmao n.163, Huangpu Avenue Tianhe District 510620 Guangzhou P.R. CHINA	€ 100,000	100%	Line-by-line method
OSAI UK Ltd.	Mount House - Bond Avenue, Bletchley, MK1 1SF Milton Keynes, UNITED KINGDOM	GBP 160,000	100%	Line-by-line method

## ASSOCIATES

PRIMA ELECTRO	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
ELECTRO POWER SYSTEM SA	Boulevard Poissonnière 14-16, 75009 Paris - FRANCE	€ 1.576.361	17,29%	Net Equity Method



## CHAPTER 2

### Introduction



## CHAPTER 2. INTRODUCTION

### FOREWORD

The Interim Financial Report at September 30<sup>th</sup>, 2016 of the PRIMA INDUSTRIE Group was prepared pursuant to article 154-ter of Leg. Decree 58/1998 and subsequent amendments, as well as the issuer's Regulation issued by CONSOB .

This Interim Financial Report has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and recognized by the European Union and has been compiled in accordance with the IAS 34 - Interim Balance Sheets.

This Interim Financial Report has been approved by the Board of Directors on November 11<sup>th</sup>, 2016 and has not been subject to an audit.

### ALTERNATIVE PERFORMANCE INDICATORS

In this report, added to the conventional financial indicators required by the IFRS, some alternative performance indicators are present in order to permit a better evaluation of the progress of the economic-financial management.

Such indicators, which are also presented in the Group Interim Management Report must not be considered as a substitute to the conventional ones required by the IFRS.

Below are summarized the alternative performance indicators used by the Group accompanied by the relevant explanation and the basis of calculation:

- EBIT (which corresponds to the "Operating Profit");
- EBITDA ("Earnings before interest, taxes, depreciation and amortization"), which results by adding the "Amortization" and "Impairment and Depreciation" entries to the "Operating Profit";
- the EBT (which corresponds to the "Income before taxation").

Also mentioned furthermore:

- the "Value of Production", given by the algebraic sum of the entries "Net Revenues and services", "Other income", "Variations in inventories of semi-finished and finished products" and "Increases in fixed assets for internal work";
- the "Operational Working Capital", given by the algebraic sum of "Inventory", "Trade Receivables", "Trade Payables" and "Advances".

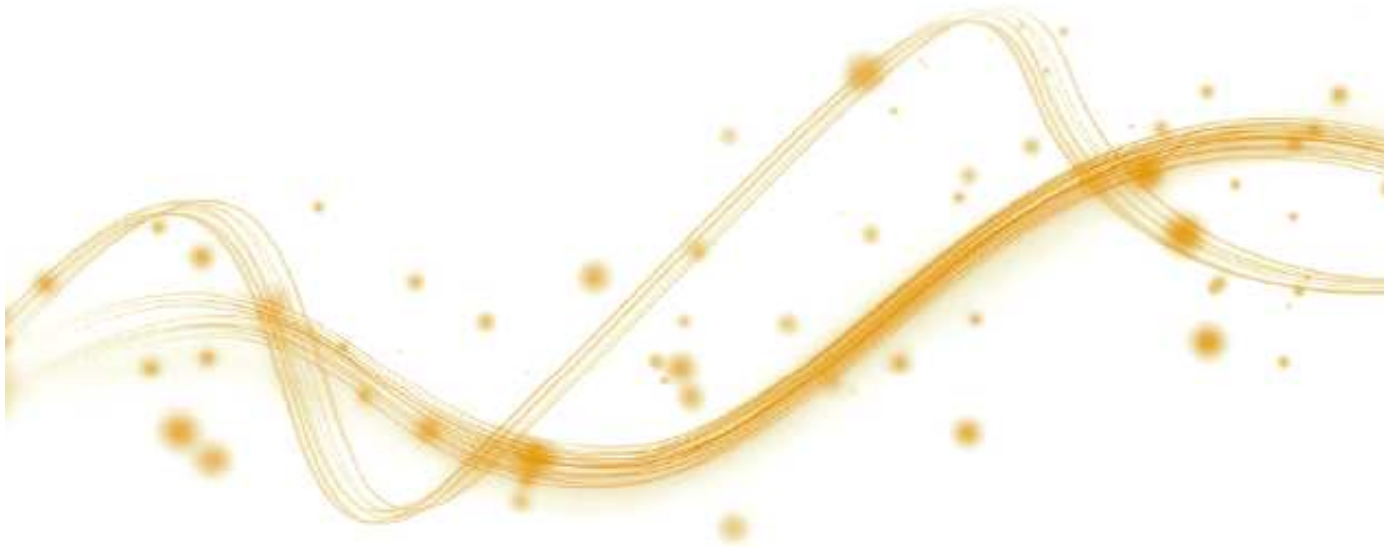
## CURRENCY EXCHANGE RATES

The exchange rates applied in converting the financial statements to a currency other than the Euro are, for the purpose of consolidation, the following:

CURRENCY	AVERAGE EXCHANGE RATE		SPOT EXCHANGE RATE	
	September 30,2016	September 30,2015	September 30,2016	December 31,2015
US DOLLAR	1.1158	1.1145	1.1161	1.0887
CHINESE RENMINBI	7.3432	6.9647	7.4463	7.0608
RUSSIAN RUBLE	76.3055	66.5540	70.5140	80.6736
TURKISH LIRA	3.2756	2.9676	3.3576	3.1765
POLISH ZLOTY	4.3588	4.1559	4.3192	4.2639
POUND STERLING	0.8022	0.7274	0.8610	0.7340
BRAZILIAN REAL	3.9642	3.5183	3.6210	4.3117
INDIAN RUPEE	74.8991	70.8406	74.3655	72.0215
AUSTRALIAN DOLLAR	1.5053	1.4619	1.4657	1.4897
CANADIAN DOLLAR	1.4754	1.4031	1.4690	1.5116
MEXICAN PESO	20.4136	17.3513	21.7389	18.9145

## CHAPTER 3

### GROUP Interim Management Report



## CHAPTER 3. GROUP INTERIM MANAGEMENT REPORT

### SIGNIFICANT EVENTS OF THE PERIOD

There have been no significant events in the third quarter of the year 2016.

For the events of the first six months of the year, refer to the Half-Year Financial Report as of June 30<sup>th</sup>, 2016.

### MACRO ECONOMIC CONTEXT

The world economic outlook continued to deteriorate in the second half of 2016 in the middle of a series of uncertainties ranging from the *Brexit* to the intentions of the Chinese government regarding the growth targets, to the results of the presidential elections in the USA. According to the most recent estimates of the *Oxford Economics* research department, it is expected that the World GDP will expand by 2.2% in 2016 and 2.6% in 2017, compared to the previous estimates respectively of 2.3% and 2.9%.

In particular, the *Brexit* referendum should not have a visible economic impact outside the United Kingdom, which represents a small part of global economic activity.

The Euro zone, despite being the most exposed to the *Brexit*, is likely to expand more rapidly than the USA, and this year for the first time since 2007.

Meanwhile, the prospects of developing countries have improved. The situation of the major oil producers raises less concern, after that the recovery of prices has consolidated between 40 and 50 dollars per barrel. We believe that OPEC countries and Russia have no intention of giving up market shares trying to bring the prices on more profitable levels, even for the strong reactivity demonstrated by the American production, and therefore the absorption of excess supply and recovery of prices will be slow and modest.

The state of global investments instead is influenced by the uncertainties related to the economic policies in the USA after the presidential election in November, while in China persist the unknowns related to the excessive dependence of growth to investment and excess debt and, therefore, the doubts about the sustainability of Chinese growth have not been dispelled. In addition, the improvement of the situation in developing Countries is partly offset by the opposite trends in advanced Countries, which prevented a significant acceleration of global GDP in the second half. In the USA, despite the boom in consumption, GDP growth was surprisingly weak in the second quarter, hampered by a series of unfavorable stocks and secondarily by the weakness in business investment. In the third quarter there should be a re-acceleration, but the unemployment rate, now at very low levels expresses a quite mature expansion cycle.

Despite the optimism related to the continental Europe, the scenario remains weak as regards the global trade (with growth prospects of only 0.4% this year).

The weakness in trade and investment means that the prospects for the industry are much more pessimistic than the overall economy. In fact, the industrial expansion in the first half of 2016 was the weakest since the end of 2008-09. The weakest sectors are those that are highly dependent on the investment demand, such as industrial machinery, electrical and electronic equipment and metal products. Even in sectors that were strong at the end of the global recession, such as aerospace and automotive industries, the growth has slowed, partly due to the rapid growth in recent years, partly due to a deceleration of growth in consumer spending, especially in developed economies. In general *Oxford Economics* foresees a growth in industrial production of 2.7% in 2016 and 2017.

## REVENUES AND PROFITABILITY

The consolidated revenues at September 30<sup>th</sup>, 2016 amount to 274,536 thousand Euro, an increase of 5.6% compared to the corresponding period of the year 2015 (equal to 260,095 thousand Euro).

The consolidated turnover is shown below on a geographic basis at September 30<sup>th</sup>, 2016 compared with the corresponding period for the previous financial year.

Revenues	September 30, 2016		September 30, 2015	
	<i>Euro thousand</i>	%	<i>Euro thousand</i>	%
EMEA	155,740	56.7	164,303	63.2
AMERICAS	67,781	24.7	54,427	20.9
APAC	51,015	18.6	41,365	15.9
<b>TOTAL</b>	<b>274,536</b>	<b>100.0</b>	<b>260,095</b>	<b>100.0</b>

It should be noted that the Group generated consolidated revenues in the EMEA for 155,740 thousand Euro; in particular, the Group achieved good results in Italy (14.9% of revenues), in the countries of Northern Europe (9.3% of revenues), in Spain (6.2% of revenues) and in Germany (6.0% of revenues).

The amount reached in the AMERICAS has substantially increased compared to the same period of 2015, rising from 54,427 thousand Euro to 67,781 thousand Euro (+24.5%); the increase is attributable to North America, where revenues increased from 52,641 thousand Euro to 66,820 thousand Euro.

Also with regard to the APAC Countries the revenues increased compared to 2015; this increase is attributable primarily to China, South Korea and India, whose revenues increased from 29,685 thousand Euro to 38,044 thousand Euro (13.8% of consolidated turnover), from 1,485 thousand Euro to 4,520 thousand Euro and from 2,096 thousand Euro to 4,565 thousand Euro.

Shown below it is a subdivision of the revenues by sector of the gross inter-sector transactions (for more details with regard to Group operational segments, see note 6.30 - Sector Information).

Revenues	September 30, 2016		September 30, 2015	
	<i>Euro thousand</i>	%	<i>Euro thousand</i>	%
PRIMA POWER	256,235	93.3	227,842	87.6
PRIMA ELECTRO	30,384	11.1	43,535	16.7
Inter-sector revenues	(12,083)	(4.4)	(11,282)	(4.3)
<b>TOTAL</b>	<b>274,536</b>	<b>100.0</b>	<b>260,095</b>	<b>100.0</b>

For a clearer view on revenues, the following table shows their breakdown both by segment and by geographical area (net of inter-segment items) for the first nine months of 2016 and for the first nine months of 2015.

Revenues segment/area - September 30,2016	EMEA	AMERICAS	APAC	TOTAL
<i>Euro thousand</i>				
PRIMA POWER	141,357	65,647	48,973	255,977
PRIMA ELECTRO	14,383	2,134	2,042	18,559
<b>TOTAL</b>	<b>155,740</b>	<b>67,781</b>	<b>51,015</b>	<b>274,536</b>
Revenues segment/area - September 30,2015	EMEA	AMERICAS	APAC	TOTAL
<i>Euro thousand</i>				
PRIMA POWER	139,176	52,418	36,193	227,787
PRIMA ELECTRO	25,127	2,009	5,172	32,308
<b>TOTAL</b>	<b>164,303</b>	<b>54,427</b>	<b>41,365</b>	<b>260,095</b>

It should be noted that the overall increase in revenues is attributable to PRIMA POWER division, while the PRIMA ELECTRO division reported revenues decreased due to the sharp drop in orbital welding systems supply (intended for the *oil and gas* sector) as well as to the reduction in the sale of CO<sub>2</sub> laser machines not yet compensated by the starting of major supplies of fiber laser machines.

The revenues of PRIMA POWER division increased by 12.4% compared with the corresponding period of the previous year. The division achieved 55.2% of sales in the EMEA region (mainly in Italy, Northern European countries, Germany, Spain), 25.7% in the AMERICAS Countries (mainly NAFTA) and 19.1% in the APAC region (mainly China).

The revenues of PRIMA ELECTRO division decreased by 13,749 thousand Euro compared with the corresponding period of the previous year. The division achieved 77.5% of sales in the EMEA region (mainly Italy and Benelux), 11.5% in the AMERICAS Countries and 11% in the APAC region (mainly China).

The **Value of production** at September 30<sup>th</sup>, 2016 is equal to 299,982 thousand Euro, an increase of 5.8% with respect to the corresponding period of the financial year 2015 (increase of 283,556 thousand Euro).

The value of production at September 30<sup>th</sup>, 2016 also includes increases in fixed assets for internal work which amounts to 7,926 thousand Euro (8,778 thousand Euro at September 30<sup>th</sup>, 2015); these costs principally refer to investments in development costs.

Performance indicators	September 30, 2016		September 30, 2015	
	<i>Euro thousand</i>	<i>% on sales</i>	<i>Euro thousand</i>	<i>% on sales</i>
EBITDA	24,022	8.8	21,717	8.4
EBIT	12,316	4.5	11,816	4.5
EBT	7,223	2.6	4,096	1.6
NET RESULT	5,625	2.0	2,222	0.9
NET RESULT ATTRIBUTABLE TO GROUP SHAREHOLDERS	5,584	2.0	2,622	1.0

The Group's **EBITDA** amounted to 24,022 thousand Euro (8.8% of revenues) and is in increase compared to the previous year of 21,717 thousand Euro (on September 30<sup>th</sup>, 2016 it amounted to 21,717 thousand Euro).

The EBITDA of the Group is shown below at September 30<sup>th</sup>, 2016 and at September 30<sup>th</sup>, 2015 detailed by division (gross of the inter-sector transactions).

EBITDA	September 30, 2016		September 30, 2015	
	<i>Euro thousand</i>	%	<i>Euro thousand</i>	%
PRIMA POWER	23,136	96.3	15,427	71.0
PRIMA ELECTRO	969	4.0	6,467	29.8
Inter sector items and eliminations	(83)	(0.3)	(177)	(0.8)
<b>TOTAL</b>	<b>24,022</b>	<b>100.0</b>	<b>21,717</b>	<b>100.0</b>

The consolidated **EBIT** at September 30<sup>th</sup>, 2016 amounted to 12,316 thousand Euro (4.5% of consolidated sales) and is in increase of 500 thousand Euro compared to the same period of 2015 (equal to 11,816 thousand Euro). The depreciation of this result is influenced by intangible assets for an amount of 8,688 thousand Euro by Property, Plant & Equipment for an amount of 2,890 thousand Euro and by an impairment for an amount of 127 thousand Euro referred to development costs of the PRIMA ELECTRO Division. Regarding the depreciation of intangible assets, these mainly refer to the depreciation of development costs (5,751 thousand Euro) and the depreciation related to assets with a defined useful life recognized in the business merger of the FINN-POWER Group (brand and relations with customers - "customer list") which amount to 2,353 thousand Euro.

The EBIT is shown below at September 30<sup>th</sup>, 2016 and September 30<sup>th</sup>, 2015 subdivided by sector, gross of the inter-sector transactions.

EBIT	September 30, 2016		September 30, 2015	
	<i>Euro thousand</i>	%	<i>Euro thousand</i>	%
PRIMA POWER	14,235	115.6	7,608	64.4
PRIMA ELECTRO	(1,847)	(15.0)	4,374	37.0
Inter sector items and eliminations	(72)	(0.6)	(166)	(1.4)
<b>TOTAL</b>	<b>12,316</b>	<b>100.0</b>	<b>11,816</b>	<b>100.0</b>

The consolidated **EBT** at September 30<sup>th</sup>, 2016 is positive and amounts to 7,223 thousand Euro and increase by 3,127 thousand Euro compared to the same period of 2015 (4,096 thousand Euro). This value includes net financial expenses arising from financial management (including gains and losses on exchange rates) which amounts to 5,425 thousand Euro (7,621 thousand Euro at September 30<sup>th</sup>, 2015). It should be specified that the result of net financial charges at September 30<sup>th</sup>, 2015 was influenced by non-recurring expenses amounting to 2,123 thousand Euro incurred between February and March 2015 after the full early repayment of the FINPOLAR loan which had also resulted in the closing of the derivative contract relating to this loan.



Financial results (€/000)	September 30, 2016	September 30, 2015
<i>Bond</i> expenses	(1,811)	(1,558)
Club-Deal loan expenses	(997)	(1,076)
Finnish loan expenses	(491)	(177)
Advance Finpolar loan expenses	-	(2,123)
Finpolar loan expenses	-	(295)
Derivate expenses (CRS)	465	566
Other financial expenses	(1,898)	(2,039)
<b>Net financial expenses</b>	<b>(4,732)</b>	<b>(6,702)</b>
Net exchange differences	(693)	(919)
<b>TOTAL</b>	<b>(5,425)</b>	<b>(7,621)</b>

The result of exchange rates is negative for 693 thousand Euro (negative for 332 thousand Euro at September 30<sup>th</sup>, 2015); it is worth noting the effect deriving from the management of foreign exchange derivatives, which is positive for 465 thousand Euro.

The net result of investments accounted for using the net equity method was positive for 332 thousand Euro and refers to a capital gain generated by the sale of part of EPS SA shares.

The **NET RESULT** of the Group at September 30<sup>th</sup>, 2016 amounts to 5,625 thousand Euro (2,222 thousand Euro at September 30<sup>th</sup>, 2015); while the Net Result attributable to Parent Company amounts to 5,584 thousand Euro. Income taxes in the first nine months of 2016 indicate a negative net balance of 1,598 thousand Euro. The balance of current and deferred taxes is negative for 1,215 thousand Euro, IRAP is equal to 332 thousand Euro and other taxes including those relating to prior years amounted to 51 thousand Euro.

### NET FINANCIAL POSITION

On September 30<sup>th</sup>, 2016, the net financial position of the Group was negative for an amount of 122,252 thousand Euro, compared to 110,901 thousand Euro on September 30<sup>th</sup>, 2015 and to 101.747 thousand Euro on December 31<sup>st</sup>, 2015. The increase of the financial position reflects the higher volumes expected in the last quarter of the year.

The net financial position detail is as follows.

Value expressed in Euro thousand	September 30, 2016	December 31, 2015	September 30, 2015
CASH & CASH EQUIVALENTS	(28,332)	(41,365)	(36,436)
CURRENT FINANCIAL RECEIVABLES	(847)	(839)	(1,121)
CURRENT FINANCIAL LIABILITIES	33,951	25,731	22,407
NON CURRENT FINANCIAL LIABILITIES	117,480	118,220	126,051
<b>NET FINANCIAL POSITION</b>	<b>122,252</b>	<b>101,747</b>	<b>110,901</b>

To provide better information with regard to the net financial position at September 30<sup>th</sup>, 2016, the following should be considered (costs included):

- the *Bond* amounts comprehensively to 39,921 thousand Euro;
- the *Club Deal* loan amounts comprehensively to 36,070 thousand Euro;
- the *Finnish Loan* amounts comprehensively to 22,314 thousand Euro;
- payables due to leasing companies (almost exclusively of a property nature) amount to 9,594 thousand Euro.

For more details on the net financial position see the Note 6.11 - Net Financial Position.

## TRADE ASSETS AND ORDER PORTFOLIO

During the first nine months of 2016 the **acquisition of orders** of the Group (including *after-sale service*) amounted to 305,8 million Euro, in increase compared to 274.0 million Euro on September 30<sup>th</sup>, 2015. The acquisition of orders of the PRIMA POWER segment amounted to 286.3 million Euro, while that of the PRIMA ELECTRO, only from customers outside the Group, amounted to 19.5 million Euro.

The consolidated **order portfolio** (not including the *after-sale service*) on September 30<sup>th</sup>, 2016 amounted to 144,7 million Euro (compared to 107,6 million Euro on September 30<sup>th</sup>, 2015). The portfolio includes 136.5 million Euro relating to the PRIMA POWER sector and 8.2 million Euro relating to the PRIMA ELECTRO sector.

At October 31<sup>st</sup>, 2016 the order portfolio amounted to 159.1 million Euro.

## RESEARCH AND DEVELOPMENT

The research and development activity carried out by the Group during the first nine months of 2016 has been comprehensively equal to 16,711 thousand Euro (of which 11,656 thousand Euro in the PRIMA POWER sector and 5,055 thousand Euro in the PRIMA ELECTRO sector) equal to 6.1% of turnover.

The capitalized share was equal to 7,665 thousand Euro (of which 5.155 thousand Euro in the PRIMA POWER sector and 2,510 thousand Euro in the PRIMA ELECTRO sector).

Costs sustained in research and development activities for new products proved the Group main purposes in investing for the future and improving products always in the competitiveness on the international markets. For all the capitalized development activities, the technical feasibility has been verified as well as the generation of probable future economic benefits.

## OPERATIONS WITH RELATED PARTIES

During the reporting period no significant operations with related parties were concluded in accordance with Article 5, paragraph 8 of the Regulations containing provisions on related parties No. 17221, issued by Consob on March 12<sup>th</sup>, 2010.

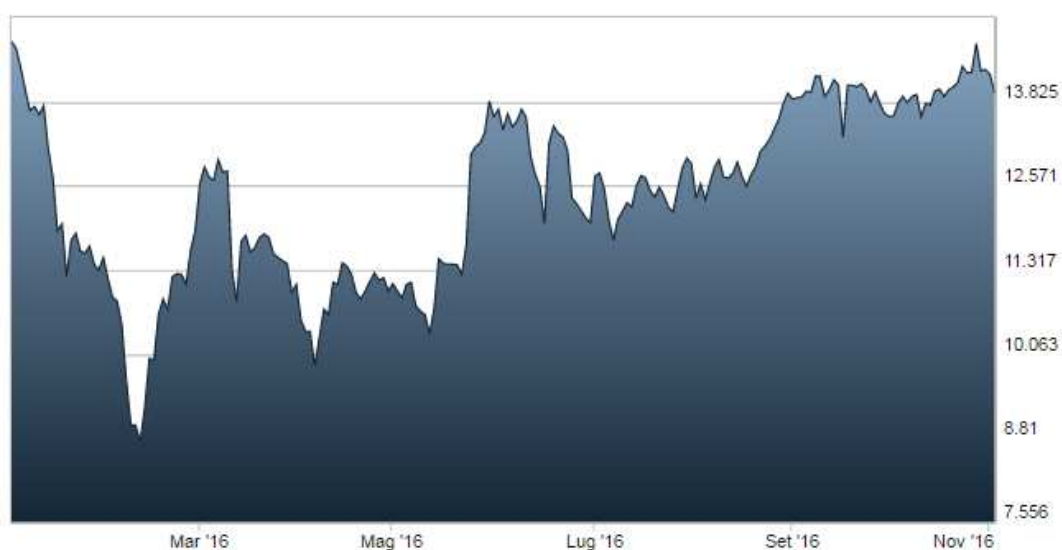
For further details of the operations carried out by the Group with related parties, refer to Note 6.29 - Information on related parties.

## STOCK TREND AND TREASURY STOCK

During the first nine months of 2016, the value of PRIMA INDUSTRIE stocks has passed from a unit value of 14.72 Euro on January 1<sup>st</sup>, 2016 to a value of 13.60 Euro each share on September 30<sup>th</sup>, 2016.

The minimum stock value of the period amounted to 8.75 Euro (February 11<sup>th</sup>, 2016), while the maximum value one (14.72 Euro) was reached at the opening of the year (January 4<sup>th</sup>, 2016).

The stock performance was affected until mid-February by the widespread collapse of financial markets in the period; then the stock has regained momentum, returning, from the end of August on values permanently higher than 13 Euro per share. From the end of October, in addition, the stock has returned to values approximately as at the beginning of the year.



On April 21<sup>st</sup>, 2016 the Shareholders' Meeting of PRIMA INDUSTRIE SpA authorized the purchase, in one or more tranches, for a period of eighteen months, of ordinary shares of PRIMA INDUSTRIE SpA for a maximum number of shares equal to 500,000, establishing 10,000,000 Euro as the maximum value for the purchase, authorizing as of now the disposal of treasury shares, in one or more tranches, without time limits, according to the method deemed most appropriate in the interests of the Company and in compliance with the applicable legislation.

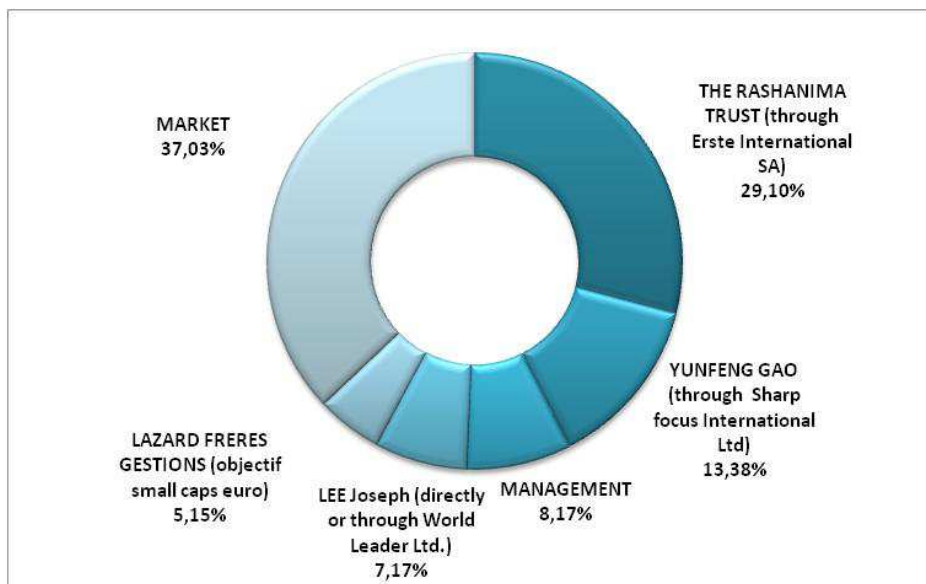
The purchases will be made on regulated markets according to the operating procedures established in the regulations for the organization and management of said markets according to the operating mode set in the Borsa Italian SpA Regulation, in accordance with art. 144 bis, paragraph 1, sub-paragraph b), of Consob Regulation no. 11971/99 and subsequent amendments.

At the date of this financial report, PRIMA INDUSTRIE does not hold any treasury stock.

## SHAREHOLDING STRUCTURE

On September 30<sup>th</sup>, 2016, the share capital of PRIMA INDUSTRIE SpA amounts to Euro 26,208,185 divided into 10,483,274 ordinary shares at the nominal value of 2.50 Euro each. No classes of shares or bonds have been issued other than ordinary shares.

In the light of the results of the shareholders diary and from subsequent communications carried out between the company and the overseeing authority, the most up-to-date share structure is as follows:



*Pursuant to the combined provisions of Article 1, paragraph 1, sub-paragraph w-quarter 1) of Legislative Decree no. 58/1998 and Article 117, paragraph 1 of the Issuers Consob Regulation 11971/1999, significant investments are the investment of those who participate in the Issuer's share capital with a share of over 5%, as the Issuer is defined as SME.*

## FORESEEABLE DEVELOPMENTS OF MANAGEMENT

In consideration of the results achieved in the first nine months of the year and the substantial order portfolio at the end of the period, the Group expects positive and increasing results throughout the year 2016 compared to the previous year; this thanks to the excellent performance of the PRIMA POWER division, which with its wide, innovative and technologically advanced product range will enable the Group to overcome the temporary decline in the PRIMA ELECTRO division, which is expected to be in recovery from next year.

## EVENTS OCCURRING AFTER THE REFERENCE DATE OF THE FINANCIAL STATEMENT

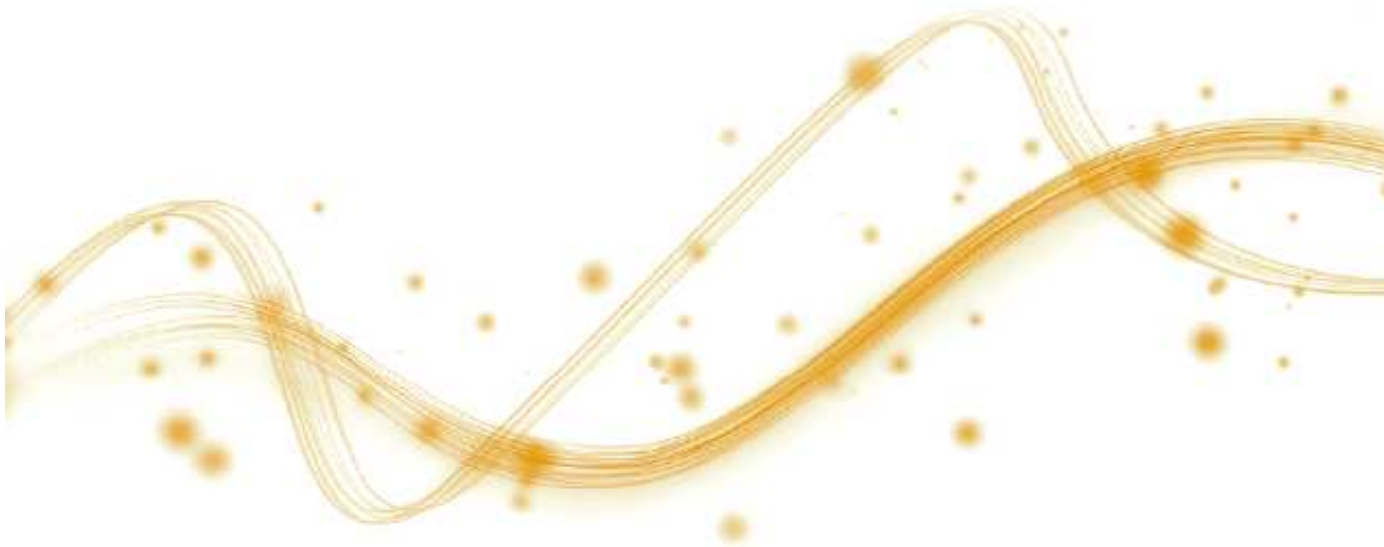
There were no significant events subsequent to the financial statements closing and until the date of approval of this Half Year Financial Report.

## ATYPICAL AND UNUSUAL TRANSACTIONS

Pursuant to Consob Bulletin of July 28<sup>th</sup>, 2006 no. DEM/6064296, we wish to specify that in the examined period, the Group has not engaged in transactions defined as atypical or unusual in the Bulletin.

## **CHAPTER 4**

### **Economic performance by segment**



## CHAPTER 4. ECONOMIC PERFORMANCE BY SEGMENT

The Group conducts its business with an organizational structure that concentrates its activities in two divisions: PRIMA POWER and PRIMA ELECTRO.

The PRIMA POWER Division includes the design, manufacture and sale of:

- laser machines to cut, weld and punch metallic components, three-dimensional (3D) and two-dimensional (2D), and
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

The PRIMA ELECTRO Division includes the development, construction and sale of electronic power and control components, and hi-power laser sources for industrial applications, intended for the machines of the Group and third customers.

Shown below is a table of economic indicators for the two sectors in which the Group currently operates.

*Values expressed in Euro thousand*

September 30, 2016	REVENUES	EBITDA	% on Revenues	EBIT	% on Revenues
PRIMA POWER	256,235	23,136	9.0%	14,235	5.6%
PRIMA ELECTRO	30,384	969	3.2%	(1,847)	-6.1%
ELIMINATION	(12,083)	(83)	0.7%	(72)	0.6%
<b>GROUP</b>	<b>274,536</b>	<b>24,022</b>	<b>8.8%</b>	<b>12,316</b>	<b>4.5%</b>

*Values expressed in Euro thousand*

September 30, 2015	REVENUES	EBITDA	% on Revenues	EBIT	% on Revenues
PRIMA POWER	227,842	15,427	6.8%	7,608	3.3%
PRIMA ELECTRO	43,535	6,467	14.9%	4,374	10.0%
ELIMINATION	(11,282)	(177)	1.6%	(166)	1.5%
<b>GROUP</b>	<b>260,095</b>	<b>21,717</b>	<b>8.4%</b>	<b>11,816</b>	<b>4.5%</b>

### PRIMA POWER

The revenues of PRIMA POWER division increased by 12.4% compared with the corresponding period of the previous year. The division achieved excellent results in terms of revenues in Italy (12.9% of turnover of the division), in Northern Europe (9.9%), in Germany (6.3%) and in Spain (6.6%). The NAFTA countries contribute for 25.3% of the division revenues and China contributes for 14.2%.

The EBITDA of the PRIMA POWER segment amounts to 23,136 thousand Euro and is increasing both in absolute terms (for 7,709 thousand Euro) and in percentage from 6.8% to 9.0%.

**PRIMA ELECTRO**

Revenues of PRIMA ELECTRO division, net of elisions towards PRIMA POWER division, decrease compared to September 30<sup>th</sup>, 2015 by 13,749 thousand Euro. This significant decrease is due to the sharp drop in supplies of orbital welding systems (intended for the oil & gas sector) as well as the reduction in CO<sub>2</sub> laser sales not yet compensated by the start of the fiber laser supplies.

The Earning before interest, taxes, depreciation and amortization (EBITDA) of the division amounts to 969 thousand Euro and is in decrease compared to September 30<sup>th</sup>, 2015 both in absolute terms (-5,498 thousand Euro), and in percentage terms (from 14.9% to 3.2%) compared to the same period of the previous year. This decrease is entirely attributable to the decrease in revenues, although mitigated by a significant reduction in structural costs.

## CHAPTER 5

### Condensed Consolidated Financial Statements of Prima Industrie Group as of September 30<sup>th</sup>, 2016

#### ACCOUNTING TABLES





## CHAPTER 5. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF PRIMA INDUSTRIE GROUP AS OF SEPTEMBER 30<sup>TH</sup>, 2016

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Values in Euro	Notes	September 30, 2016	December 31, 2015
Property, plant and equipment	6.1	34,578,130	28,465,557
Intangible assets	6.2	156,804,302	157,770,974
Investments accounted for using the equity method	6.3	1,163,429	1,223,555
Other investments	6.4	121,358	121,358
Non current financial assets	6.5	35,000	35,000
Deferred tax assets	6.6	11,350,721	9,845,765
Other non current assets	6.9	-	19,703
<b>NON CURRENT ASSETS</b>		<b>204,052,940</b>	<b>197,481,912</b>
Inventories	6.7	108,252,017	93,992,707
Trade receivables	6.8	90,571,054	86,413,895
Other receivables	6.9	9,343,981	8,019,131
Current tax receivables	6.10	4,543,075	7,029,222
Derivatives	6.11	55,415	47,225
Financial assets	6.11	791,509	791,509
Cash and cash equivalents	6.11	28,331,645	41,365,408
<b>CURRENT ASSETS</b>		<b>241,888,696</b>	<b>237,659,097</b>
Assets held for sale	6.12	284,000	284,000
<b>TOTAL ASSETS</b>		<b>446,225,636</b>	<b>435,425,009</b>
Capital stock	6.13	26,208,185	26,208,185
Legal reserve	6.13	4,565,082	4,494,745
Other reserves	6.13	70,959,273	72,243,694
Currency translation reserve	6.13	4,475,919	5,965,409
Retained earnings	6.13	19,396,357	14,786,376
Net result	6.13	5,584,130	6,016,715
<b>Stockholders' equity of the Group</b>		<b>131,188,946</b>	<b>129,715,124</b>
<b>Minority interest</b>		<b>1,174,375</b>	<b>1,196,407</b>
<b>STOCKHOLDERS' EQUITY</b>		<b>132,363,321</b>	<b>130,911,531</b>
Interest-bearing loans and borrowings	6.11	117,203,531	117,805,350
Employee benefit liabilities	6.14	7,677,490	7,912,782
Deferred tax liabilities	6.15	9,788,031	10,518,305
Provisions	6.16	146,655	150,551
Derivatives	6.11	276,351	414,635
<b>NON CURRENT LIABILITIES</b>		<b>135,092,058</b>	<b>136,801,623</b>
Trade payables	6.17	74,125,444	78,323,460
Advance payments	6.17	26,922,178	21,385,159
Other payables	6.17	20,412,032	19,218,309
Interest-bearing loans and borrowings	6.11	33,950,994	25,700,281
Current tax payables	6.18	5,464,266	7,257,725
Provisions	6.16	17,895,343	15,796,491
Derivatives	6.11	-	30,430
<b>CURRENT LIABILITIES</b>		<b>178,770,257</b>	<b>167,711,855</b>
<b>TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES</b>		<b>446,225,636</b>	<b>435,425,009</b>

## CONSOLIDATED INCOME STATEMENT

Values in Euro	Notes	September 30, 2016	September 30, 2015
Net revenues	6.19	274,536,038	260,095,199
Other income	6.20	2,284,415	3,610,171
Change in inventories of finished goods and WIP	-	15,236,266	11,072,340
Increases in fixed assets for internal work	6.21	7,925,552	8,777,872
Use of raw materials, consumables, supplies and goods	-	(139,054,772)	(124,472,642)
Personnel cost	6.22	(75,011,295)	(74,194,678)
Depreciation	6.23	(11,578,280)	(9,900,439)
Impairment - Write-off	6.23	(127,409)	-
Other operating expenses	6.24	(61,894,688)	(63,171,664)
<b>OPERATING PROFIT</b>		<b>12,315,827</b>	<b>11,816,159</b>
Financial income	6.25	650,989	718,889
Financial expenses	6.25	(5,382,625)	(7,421,334)
Net exchange differences	6.25	(693,602)	(918,509)
Net result of investments accounted for using the equity method	6.26	332,287	(105,000)
Net result of other investments	-	-	5,700
<b>RESULT BEFORE TAXES</b>		<b>7,222,876</b>	<b>4,095,905</b>
Taxes	6.27	(1,598,279)	(1,874,234)
<b>NET RESULT</b>		<b>5,624,597</b>	<b>2,221,671</b>
- Attributable to Group shareholders		5,584,130	2,621,614
- Attributable to minority shareholders		40,467	(399,943)
<b>RESULT PER SHARE - BASIC (in euro)</b>	<b>6.28</b>	<b>0.53</b>	<b>0.25</b>
<b>RESULT PER SHARE - DILUTED (in euro)</b>	<b>6.28</b>	<b>0.53</b>	<b>0.25</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Values in Euro	Notes	September 30, 2016	September 30, 2015
<b>NET RESULT (A)</b>		<b>5,624,597</b>	<b>2,221,671</b>
Gains/ (Losses) on actuarial defined benefit plans	6.13	-	-
Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)		-	-
Gains / (Losses) on cash flow hedges	6.13	-	1,227,332
Gains/(Losses) on exchange differences on translating foreign operations	6.13	(1,551,989)	3,416,707
Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)		(1,551,989)	4,644,039
<b>TOTAL COMPREHENSIVE INCOME (A) + (B) + (C)</b>		<b>4,072,608</b>	<b>6,865,710</b>
- Attributable to Group shareholders		4,094,640	7,189,822
- Attributable to minority shareholders		(22,032)	(324,112)

## CONSOLIDATED STATEMENT OF CHANGES OM SHAREHOLDERS' EQUITY

from the 1<sup>st</sup> of January 2015 to the 30th of September 2015

VALUES IN EURO	Capital stock	Additional paid-in capital	Legal reserve	Capital increase expenses	Change in the FV of hedging derivatives	Other reserves	Currency translation reserve	Retained earnings	Net result	Stockholders' equity of the Group	Minority interest	STOCKHOLDERS' EQUITY
Balance as at January 1st, 2015	26,208,185	57,506,537	4,455,497	(1,286,154)	(1,227,332)	16,974,650	1,639,850	5,523,165	9,762,948	119,557,346	1,150,354	120,707,700
Capital increase Prima Power Suzhou	-	-	-	-	-	392,270	-	-	-	392,270	371,282	763,552
Dividends paid	-	-	-	-	-	(2,096,655)	-	-	-	(2,096,655)	-	(2,096,655)
Allocation of prior year net result	-	-	39,248	-	-	745,709	-	8,977,991	(9,762,948)	-	-	-
Result of comprehensive Income	-	-	-	-	1,227,332	-	3,340,876	-	2,621,614	7,189,822	(324,112)	6,865,710
Balance as at September 30th, 2015	26,208,185	57,506,537	4,494,745	(1,286,154)	-	16,015,974	4,980,726	14,501,156	2,621,614	125,042,783	1,197,524	126,240,307

from the 1<sup>st</sup> of January 2016 to the 30th of September 2016

VALUES IN EURO	Capital stock	Additional paid-in capital	Legal reserve	Capital increase expenses	Change in the FV of hedging derivatives	Other reserves	Currency translation reserve	Retained earnings	Net result	Stockholders' equity of the Group	Minority interest	STOCKHOLDERS' EQUITY
Balance as at January 1st, 2016	26,208,185	57,506,537	4,494,745	(1,286,154)	-	16,023,311	5,965,409	14,786,376	6,016,715	129,715,124	1,196,407	130,911,531
Dividends paid	-	-	-	-	-	(2,620,818)	-	-	-	(2,620,818)	-	(2,620,818)
Allocation of prior year net result	-	-	70,337	-	-	1,336,397	-	4,609,981	(6,016,715)	-	-	-
Result of comprehensive Income	-	-	-	-	-	-	(1,489,490)	-	5,584,130	4,094,640	(22,032)	4,072,608
Balance as at September 30th, 2016	26,208,185	57,506,537	4,565,082	(1,286,154)	-	14,738,890	4,475,919	19,396,357	5,584,130	131,188,946	1,174,375	132,363,321

## CONSOLIDATED CASH FLOW STATEMENT

VALUES IN EURO	September 30,2016	September 30,2015
Net result	5,624,597	2,221,671
<b>Adjustments (sub-total)</b>	<b>(5,166,079)</b>	<b>(10,617,291)</b>
Depreciation, impairment & write-off	11,705,689	9,900,439
Net change in deferred tax assets and liabilities	(2,235,230)	(684,156)
Change in employee benefits	(235,292)	(178,969)
Change in inventories	(14,259,310)	(21,724,976)
Change in trade receivables	(4,157,159)	8,770,907
Change in trade payables and advances	1,339,003	(2,588,194)
Net change in other receivables/payables and other assets/liabilities	2,676,220	(4,112,342)
<b>Cash Flows from (used in) operating activities (A)</b>	<b>458,518</b>	<b>(8,395,620)</b>
<b>Cash flow from investments</b>		
Acquisition of tangible fixed assets (*)	(2,466,248)	(3,276,097)
Acquisition of intangible fixed assets	(469,373)	(986,634)
Capitalization of development costs	(7,664,664)	(8,091,365)
Net disposal of fixed assets	171,602	152,551
Changes in capital of investments accounted for using the equity method	60,126	(464,483)
Net result of investments accounted for using the equity method	-	105,000
<b>Cash Flows from (used in) investing activities (B)</b>	<b>(10,368,557)</b>	<b>(12,561,028)</b>
<b>Cash flow from financing activities</b>		
Change in other financial assets/liabilities and other minor items	347,491	(2,993,474)
Increases in loans and borrowings (including bank overdrafts)	10,526,285	137,071,170
Repayment of loans and borrowings (including bank overdrafts)	(9,824,693)	(114,335,546)
Dividends paid	(2,620,818)	(2,096,655)
Change in currency translation reserve	(1,489,490)	3,340,876
Other variations	-	92,213
<b>Cash Flows from (used in) financing activities (C)</b>	<b>(3,061,225)</b>	<b>21,078,584</b>
<b>Cash Flows from (used in) change of minority shareholders (D)</b>	<b>(62,499)</b>	<b>447,113</b>
<b>Net change in cash and equivalents (E=A+B+C+D)</b>	<b>(13,033,763)</b>	<b>569,049</b>
<b>Cash and equivalents beginning of period (F)</b>	<b>41,365,408</b>	<b>35,866,508</b>
<b>Cash and equivalents end of period (G=E+F)</b>	<b>28,331,645</b>	<b>36,435,557</b>
<b>Additional Information to the Consolidated Statement of Cash-Flow</b>	<b>September 30,2016</b>	<b>September 30,2015</b>
<i>Values in Euro</i>		
Taxes	(1,598,279)	(1,874,234)
Financial incomes	650,989	718,889
Financial expenses	(5,382,625)	(7,421,334)

(\*) not included the acquisition of real estate assets by means of a financial lease

## **CHAPTER 6**

### **Explanatory Notes**



## CHAPTER 6. EXPLANATORY NOTES

### FORM AND CONTENT

The abbreviated consolidated balance sheet of PRIMA INDUSTRIE Group on September 30<sup>th</sup>, 2016 has been drawn up on the assumption of the company continuing trading (for greater detail see the note "Accounting Principles") and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and recognised by the European Union (defined as "IFRS"), as well as the legislative and regulatory directions in force in Italy (with particular reference to Leg. Decree 58/1998 and subsequent amendments, as well as the issuer's Regulation issued by CONSOB). "IFRS" is also meant as the International Accounting Standard (IAS) still in force, as well as all the interpretive documents issued by the International Financial Reporting Interpretations Committee ("IFRIC") previously called the Standing Interpretations Committee ("SIC").

The abbreviated consolidated balance sheet September 30<sup>th</sup>, 2016 has been laid out in abbreviated form, in conformity with IAS 34 "Interim balances", and does not include therefore all the information required in the annual balance sheet and must be read together with the annual balance sheet prepared for the closed financial year at December 31<sup>st</sup>, 2015, to which attention is drawn for greater detail.

The abbreviated consolidated balance on September 30<sup>th</sup>, 2016 of PRIMA INDUSTRIE Group is presented in a Euro which is also the currency of the economies in which the Group mainly operates.

The foreign subsidiaries are included in the abbreviated consolidated balance sheet on September 30<sup>th</sup>, 2016 according to the principles described in the "Accounting Principle" Note of the consolidated balance on December 31<sup>st</sup>, 2015, to which attention is drawn.

For purposes of comparison, the balance sheet data on December 31<sup>st</sup>, 2015 have been presented as well as the data of the profit and loss account and the financial statement relating to September 30<sup>th</sup>, 2015 with the movements of net assets of the first nine months of 2015 as well, as required by IAS 1.

### ACCOUNTING PRINCIPLES

#### ACCOUNTING CRITERIA AND PRINCIPLES OF CONSOLIDATION

The accounting criteria and principles of consolidation adopted for setting out the abbreviated consolidated balance sheet at September 30<sup>th</sup>, 2016 are compatible with those used for the consolidated annual balance sheet at December 31<sup>st</sup>, 2015, to which reference is made subject to the new standards/interpretations adopted by the Group starting from January 1<sup>st</sup>, 2016, as well as the adjustments required by the nature of the interim findings.

#### ON-GOING CONCERN

The condensed consolidated balance sheet at September 30<sup>th</sup>, 2016 has been set out on the assumption of the company continuing trading in that it is reasonably expected that PRIMA INDUSTRIE will continue with its operational activities in the foreseeable future.

### USE OF ACCOUNTING ESTIMATES

The drawing up of an interim balance sheet requires the carrying out of estimates and assumptions which have effect on the values of revenues, costs, assets and liabilities of the balance sheet and on the information report relating to the potential assets and liabilities on the date of the interim balance sheet. If in the future, such estimates and assumptions which are based on the best evaluation by management, should differ through effective circumstances, they will be modified in an appropriate manner in the period in which the circumstance themselves vary. In particular, with regard to the condensed consolidated balance sheet of September 30<sup>th</sup>, 2016, the taxes on income for the period of the individual consolidated companies are determined on the basis of the best estimate possible in relation to the available information, and on a reasonable forecast of the progress of the financial year up to the end of the tax period.

### **FINANCIAL STATEMENTS**

The Group has opted to use the formats described hereinafter in drafting its Financial Statements:

- a) for the Consolidated Assets & Liabilities Statement, the format used distinguishes the assets and liabilities in “current” (i.e. receivable or payable in 12 months) and “non-current (i.e. receivable or payable after 12 months);
- b) for the Consolidated Profit & Loss Account, the format used distributes costs according to their kind; the Global Consolidated Profit & Loss includes, besides the Profit in the year as listed in the Consolidated Profit & Loss, the other variations to the Net Equity that do not refer to transactions with Shareholders;
- c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;
- d) for the Financial Account, the so-called “indirect” method was chosen, whereby the net financial flow of Corporate business is determined by adjusting the profit and loss, because of the effects of:
  - non-monetary elements such as amortization and depreciation;
  - variations of inventory, receivables and payables generated by Corporate business;
  - other elements whose financial flows are generated by investments and financings.

This Interim Financial Report was authorized for publication by the Board of Directors on November 11<sup>th</sup>, 2016.



## EXPLANATORY NOTES

The data shown in the explanatory notes, if not shown otherwise, are expressed in Euro.

### NOTE 6.1 - TANGIBLE FIXED ASSETS

The tangible fixed assets on September 30<sup>th</sup>, 2016 are equal to 34, 578 thousand Euro, an increase of 6,113 thousand Euro compared with December 31<sup>st</sup>, 2015.

For more details figure, refer to the table below.

Tangible Fixed Assets	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other tangible fixed assets	Fixed assets under construction	TOTAL
Net value as at December 31, 2014	18,992,681	2,201,670	2,331,670	2,606,706	779,439	26,912,167
<b>Movements 2015</b>						
Increases	473,892	548,917	2,059,884	1,065,328	431,175	4,579,196
Disinvestments	(98,837)	(86,612)	(42,257)	(680,349)	-	(908,055)
Utilization of accumulated depreciation	5,835	85,503	40,888	622,397	-	754,623
Depreciation	(718,985)	(495,993)	(1,125,844)	(1,062,226)	-	(3,403,048)
Impairment	-	-	-	(25,087)	-	(25,087)
Reclassifications with tangible fixed assets	-	-	208,993	19,439	(228,432)	-
Differences on exchange rates	322,577	38,593	137,960	53,590	3,041	555,761
Net value as at December 31, 2015	18,977,163	2,292,078	3,611,294	2,599,798	985,223	28,465,557
<b>2016 First nine months</b>						
Increases	6,591,213	936,782	752,727	833,563	331,346	9,445,631
Disinvestments	-	(105,148)	(26,207)	(332,470)	-	(463,825)
Utilization of accumulated depreciation	-	105,148	1,795	278,810	-	385,753
Depreciation	(614,910)	(411,904)	(1,035,333)	(827,899)	-	(2,890,046)
Reclassifications with tangible fixed assets	221,251	14,500	202,164	64,417	(502,332)	-
Reclassifications with other entries	-	-	-	-	(93,530)	(93,530)
Differences on exchange rates	(175,726)	(32,728)	(42,362)	(16,915)	(3,679)	(271,410)
Net value as at September 30, 2016	24,998,991	2,798,728	3,464,078	2,599,304	717,028	34,578,130

The increase in Land and Buildings refers for 6,500 thousand Euro to the property leasing signed by PRIMA INDUSTRIE for the new HQTC site opened in May. Increases in other categories of Property, Plant & Equipment refer to the normal operating activities of the Group.

### NOTE 6.2 - INTANGIBLE ASSETS

The intangible assets on September 30<sup>th</sup>, 2016 are equal to 156,804 thousand Euro and decreased by 967 thousand Euro compared with December 31<sup>st</sup>, 2015.

For more details figure, refer to the table below.

Intangible assets	Goodwill	Development costs	Other intangible assets	TOTAL
Net value as at December 31, 2014	102,880,429	32,164,841	20,507,052	155,552,322
<b>Movements 2015</b>				
Increases / (decreases)	-	10,337,511	1,334,088	11,671,599
Depreciation	-	(6,479,777)	(3,624,307)	(10,104,084)
Impairment	-	(357,777)	(25,060)	(382,837)
Differences on exchange rates	289,417	683,479	61,078	1,033,974
Net value as at December 31, 2015	103,169,846	36,348,277	18,252,851	157,770,974
<b>2016 First nine months</b>				
Increases / (decreases)	-	7,664,664	469,373	8,134,037
Depreciation	-	(5,750,697)	(2,937,536)	(8,688,233)
Impairment	-	(127,409)	-	(127,409)
Reclassifications with intangible assets	-	309,525	(309,525)	-
Differences on exchange rates	(68,790)	(192,232)	(24,045)	(285,067)
Net value as at September 30, 2016	103,101,056	38,252,128	15,451,118	156,804,302

The most significant item is represented by Goodwill, which on September 30<sup>th</sup>, 2016 amounts to 103,101 thousand Euro. Goodwill accounted for refers to the larger value paid with respect to the fair value of the net assets acquired.

The table below shows the book value of the goodwill allocated to each of the units generating financial flow.

CASH GENERATING UNIT	BOOK VALUE GOODWILL September 30, 2016	BOOK VALUE GOODWILL December 31, 2015
PRIMA POWER	97,751	97,794
OSAI (Service)	4,125	4,125
PRIMA ELECTRO NORTH AMERICA	1,034	1,060
MLTA	154	154
OSAI UK	37	37
<b>TOTAL</b>	<b>103,101</b>	<b>103,170</b>

Goodwill (being an asset with an undefined life) is not subject to depreciation and is subject to verification at least annually of the reduction of value (*impairment test*). On December 31<sup>st</sup>, 2015 the Group carried out the *impairment test* on the value of the main elements of goodwill (PRIMA POWER, OSAI-Service and PRIMA ELECTRO NORTH AMERICA), for which attention is drawn to the Consolidated Financial Statements at December 31<sup>st</sup>, 2015. Regarding the above mentioned goodwill, as no indicators of loss in value have appeared compared with the financial statements closed on December 31<sup>st</sup>, 2015, it was not considered necessary to update the related *impairment tests*.

**NOTE 6.3 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

This heading amounts to 1,163 thousand Euro and refers to the investment in EPS SA, 17.29% owned by PRIMA ELECTRO SpA. The decrease of 60 thousand Euro relates to the sale of about 70 thousand shares that resulted in the recording of a capital gain of 332 thousand Euro. The assessment of the investment on September 30<sup>th</sup>, 2016 is based on the best estimate of the period result of EPS SA.

**NOTE 6.4 - OTHER INVESTMENTS**

At September 30<sup>th</sup>, 2016 this Other Investments amount to 121 thousand Euro and is and it is unchanged compared to December 31<sup>st</sup>, 2015.

Consequently this heading on September 30<sup>th</sup>, 2016 is composed of:

- Caretek Srl: 5 thousand Euro (investment equal to 19.3% held by PRIMA ELECTRO SpA);
- Fimecc OY: 50 thousand Euro (investment equal to 2.4% held by FINN-POWER OY);
- Härmämedi OY: 25 thousand Euro (investment equal to 8.3% held by FINN-POWER OY);
- Lamiera Servizi Srl: 11 thousand Euro (investment equal to 19% held by PRIMA INDUSTRIE SpA);
- other minor investments: 30 thousand Euro.

**NOTE 6.5 - NON CURRENT FINANCIAL ASSETS**

This item at September 30<sup>th</sup>, 2016 amounted to 35 thousand Euro and refers to a loan issued by PRIMA ELECTRO SpA to Caretek Srl.

**NOTE 6.6 - DEFERRED TAX ASSETS**

The Deferred Tax Assets amounts to 11,351 thousand Euro, showing an increase compared with the preceding financial year of 1,505 thousand Euro.

The accounting statement of prepaid taxes has been carried out, only where suppositions of recoverability exist. The valuation on the recoverability of anticipated taxes takes into account the expected profits in future financial years. The anticipated taxes calculated on the losses carried forward have been recognized in the measure at which it is probable that a future taxable income against which they might be recovered. During the first half of 2016 no elements have been identified which could modify the valuations made with regard to the recoverability of deferred tax assets.

**NOTE 6.7 - INVENTORIES**

The following table shows the composition of inventories at September 30<sup>th</sup>, 2016 and December 31<sup>st</sup>, 2015.

Inventories	September 30,2016	December 31,2015
Raw materials	34,747,460	28,983,532
Semi-finished goods	22,987,571	18,200,325
Finished goods	58,473,611	54,485,981
(Inventory provisions)	(7,956,625)	(7,677,131)
<b>TOTAL</b>	<b>108,252,017</b>	<b>93,992,707</b>

The inventories on September 30<sup>th</sup>, 2016 amount to 108,252 thousand Euro, net of the inventory provisions amounting to 7,957 thousand Euro.

The inventory provisions during the year 2016 were subject to the following movements.

Inventory provisions	September 30,2016
Value as at December 31,2015	(7,677,131)
Provisions	(940,789)
Utilizations	544,708
Differences on exchange rates	116,587
Value as at September 30,2016	(7,956,625)

The net value of inventories on September 30<sup>th</sup>, 2016 shows an increase equal to 14,259 thousand Euro compared with December 31<sup>st</sup>, 2015. This increase is related to the need to support the production volumes for the end of the year.

#### NOTE 6.8 - TRADE RECEIVABLES

The net trade receivables on September 30<sup>th</sup>, 2016 amount to 90,571 thousand Euro and are in increase of 4,157 thousand Euro compared to December 31<sup>st</sup>, 2015.

Trade receivables	September 30,2016	December 31,2015
Receivables from customers	94,298,229	90,264,658
Bad Debt Reserve	(3,727,175)	(3,850,763)
<b>TOTAL</b>	<b>90,571,054</b>	<b>86,413,895</b>

The Bad Debt Reserve reflects the management's best estimate about the expected losses of the Group. The book value of Trade Receivables is considered to be equal to its *fair value*.

#### NOTE 6.9 - OTHER RECEIVABLES

Other receivables on September 30<sup>th</sup>, 2016 are equal to 9,344 thousand Euro and increased by 1,325 thousand Euro compared with December 31<sup>st</sup>, 2015.

Other receivables	September 30,2016	December 31,2015
Advances payments to suppliers	3,476,197	3,438,338
Contribution to be received for R&D projects	3,119,030	2,857,574
Prepayments and accrued income	2,196,610	1,062,144
Advances to employees	328,988	209,024
Other receivables	223,156	452,051
<b>TOTAL</b>	<b>9,343,981</b>	<b>8,019,131</b>

**NOTE 6.10 - OTHER TAX ASSETS**

The heading amounts to 4,543 thousand Euro in decrease of 2,486 thousand Euro compared to December 31<sup>st</sup>, 2015. Tax assets are represented by VAT credits for 2,681 thousand Euro (1,730 thousand Euro on December 31<sup>st</sup>, 2015), a tax credit amounting to 1,048 thousand Euro following the submission of claims for IRES reimbursement (IRAP deductions for IRES purposes for the years 2007-2011), which arose in February 2013, by advances from direct taxes of 712 thousand Euro (3,956 thousand Euro on December 31<sup>st</sup>, 2015), by other receivables for minor tax assets for 92 thousand Euro (111 thousand Euro on December 31<sup>st</sup>, 2015) and by receivables for withholding tax for 10 thousand Euro (184 thousand Euro on December 31<sup>st</sup>, 2015).

**NOTE 6.11 - NET FINANCIAL POSITION**

On September 30<sup>th</sup>, 2016 the net financial position of the Group was negative for an amount of 122,252 thousand Euro, increasing of 20,505 thousand Euro compared to the previous financial year (negative for 101,747 thousand Euro). For a better understanding of the variation in the net financial position achieved during the first nine months of 2016, refer to the consolidated cash flow statement of the period.

As required by the Consob communication No. DEM/6064293 of July 28<sup>th</sup>, 2006, the net financial debt at June 30<sup>th</sup>, 2016 and December 31<sup>st</sup>, 2015 is shown in the following table, determined with the indicated criteria in the CESR (Committee of European Securities Regulators) Recommendations of February 10<sup>th</sup>, 2005 "Recommendations for the uniform activation of the European Commission Regulation on Information Sheets" and quoted by Consob itself.

*Values expressed in Euro thousand*

	Net Financial Position	September 30,2016	December 31,2015	Variations
A	CASH	28,332	41,365	(13,033)
B	OTHER CASH AND CASH EQUIVALENTS	-	-	-
C	SECURITIES HELD FOR TRADING	-	-	-
D	CASH ON HAND (A+B+C)	28,332	41,365	(13,033)
E	CURRENT FINANCIAL RECEIVABLES	847	839	8
F	CURRENT BANK DEBTS	14,594	9,222	5,372
G	CURRENT PART OF NON-CURRENT INDEBTEDNESS	17,521	14,328	3,193
H	BOND ISSUED	285	869	(584)
I	OTHER CURRENT FINANCIAL DEBTS	1,551	1,312	239
J	CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)	33,951	25,731	8,220
K	NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)	4,772	(16,473)	21,245
L	NON-CURRENT BANK DEBTS	65,030	74,077	(9,047)
M	BOND ISSUED	39,636	39,591	45
N	OTHER NON-CURRENT FINANCIAL DEBTS	12,814	4,552	8,262
O	NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)	117,480	118,220	(740)
P	NET FINANCIAL POSITION (K+O)	122,252	101,747	20,505

## LIQUIDITY

Cash and cash equivalents amount to 28,332 thousand Euro and consist of:

- bank deposits for 27,562 thousand Euro and
- cash for 770 thousand Euro.

For more details on cash and cash equivalents, see the consolidated Cash Flow Statement.

## CURRENT FINANCIAL RECEIVABLES

The current financial receivables amount to 847 thousand Euro and include:

- an time deposit signed by PRIMA INDUSTRIE SpA as a guarantee on a loan to the Brazilian subsidiary PRIMA POWER SOUTH AMERICA LTDA amounting to 550 thousand Euro;
- receivables due from Wuhan Huagong Unity relevant to the sale, performed by PRIMA INDUSTRIE SpA of the last 5% of the investment in Shanghai Unity Prima amounting to 236 thousand Euro;
- financial instruments for coverage of the exchange rate risk (*Currency Rate Swap*) for 55 thousand Euro;
- receivables from the company Lamiera Servizi of 6 thousand Euro, a subsidiary of PRIMA INDUSTRIE SpA for 19%.

## BONDS ISSUED

Debt to bondholders amount comprehensively to 40,353 thousand Euro, inclusive of accrued and unpaid interests amounting to 353 thousand Euro. Debt refers exclusively to the *Bond* issued during the first quarter of 2015 and expiring on February 6<sup>th</sup>, 2022. The net debt accounted for in the financial statements amounts to 39,921 thousand Euro. The transactions costs incurred at the issuing of the bond were accounted for in reduction of financial debt.

The long term debt amounts to 39,636 thousand Euro.

## INDEBTEDNESS WITH BANKS

The main figures included in the indebtedness with banks are the *Club Deal* loan and the *Finnish Loan*.

The *Club Deal* loan amounts to 36,595 thousand Euro at September 30<sup>th</sup>, 2016 and consists of the loan repayment due on June 30<sup>th</sup>, 2021; the Club Deal loan also includes a quota in the form of *revolving* credit lines amounting to 20,000 thousand euro expiring on December 31<sup>st</sup>, 2019 that on June 30<sup>th</sup>, 2016 the revolving credit line is used for 3,000 thousand Euro. Net debt in balance sheet amounts to 36,070 and includes transaction costs incurred at the issuing of the loan agreement.

The *Club Deal* loan is for 26,319 thousand Euro expiring beyond 12 months.

The *Finnish Loan* at September 30<sup>th</sup>, 2016 amounts to 22,500 thousand euro and consists of two quotas of 12,500 thousand Euro each and a third one in the form of commercial credit lines up to 11,000 thousand Euro at September 30<sup>th</sup>, 2016 commercial credit lines were fully available. The net debt accounted for in the Financial Statements amounting to 22,314 thousand Euro includes transaction costs incurred at the issuing of the loan agreement which have been accounted for reduction of the financial debt.

The *Finnish Loan* is for 19,872 thousand Euro expiring beyond 12 months.

The non current bank debt also includes other bank loans for 18,562 thousand Euro mainly relating to new loans attributable to the three Italian companies PRIMA INDUSTRIE SpA, PRIMA ELECTRO SpA e FINN-POWER ITALIA S.r.l. within the long term refinancing operation TLTRO (*Targeted Longer - Term Refinancing Operations*) issued by the European Central Bank. The non current bank debt also includes the negative *fair value* of a derivative financial instrument (IRS - Interest Rate Swap) equal to 277 thousand Euro whose *fair value* variations have been directly attributed to the income statement being the *hedge accounting* criteria not applicable.

The current indebtedness with banks (considering the current part of the non-current debt) includes the *Club Deal* loan for 9,751 thousand Euro, the *Finnish Loan* for 2,442 thousand Euro, *bank overdrafts* for 9,071 thousand Euro, other bank loans for 10,851 thousand Euro.

#### OTHER FINANCIAL DEBTS

The Other financial debts amount comprehensively to 14,365 thousand Euro (of which 1,551 thousand expire within 12 months).

The other financial debts include:

- debts for financial lease amounting to 9,594 thousand Euro (of which 684 thousand Euro expire within 12 months);
- other financial debts for 4,771 thousand Euro (of which 867 thousand Euro expire within 12 months ); such debts refer mainly to government loans .

#### MOVEMENT OF BANKS INDEBTEDNESS AND LOANS

Bank indebtedness and loans of PRIMA INDUSTRIE Group on September 30<sup>th</sup>, 2016 (not considering the derivatives *fair value*) are equal to 151,154 thousand Euro and the relevant detail is as follows.

BANK PAYABLES AND LOANS	Euro thousand
Bank Payables and loans - current portion (December 31, 2015)	25,700
Bank Payables and loans - non-current portion (December 31, 2015)	117,805
<b>TOTAL BANK PAYABLES AND LOANS AS OF DECEMBER 31, 2015</b>	<b>143,505</b>
Stipulation of loans and borrowings (including bank overdrafts)	10,526
Repayment of loans and borrowings (including bank overdrafts)	(9,825)
Stipulation/(repayments) of financial leasing	6,979
Exchange rate effect	(31)
<b>TOTAL BANK PAYABLES AND LOANS AS OF SEPTEMBER 30, 2016</b>	<b>151,154</b>
of which:	
Bank Payables and loans - current portion (September 30, 2016)	33,951
Bank Payables and loans - non-current portion (September 30, 2016)	117,203
<b>TOTAL BANK PAYABLES AND LOANS AS OF SEPTEMBER 30, 2016</b>	<b>151,154</b>

**NOTE 6.12 - ASSETS HELD FOR SALE**

On September 30<sup>th</sup>, 2016 the value of assets held for sale amounts to 284 thousand Euro and is unchanged compared to December 31<sup>st</sup>, 2015. It refers to some properties under construction held by the Company FINN-POWER ITALIA Srl located in Mantova, Italy. The properties are available for sale and the sale is deemed to be highly likely considering that the Management prepared a divestment program.

**NOTE 6.13 - NET EQUITY**

The net equity of PRIMA INDUSTRIE Group has increased compared to the end of last financial year of 1,452 thousand Euro. This increase is the result of the positive effects of the Group's result for the period (4,073 thousand Euro) and from the negative effect arising from the payment of dividends (2,621 thousand Euro) which took place in May.

For more details on this subject, see the table of changes in the net equity.

**NOTE 6.14 - EMPLOYEES BENEFITS LIABILITIES**

Benefits to employees includes:

- the Severance Indemnity (TFR) recognized by Italian companies for employees;
- a loyalty premium recognized by the Parent Company and by PRIMA ELECTRO for their own employees;
- a pension fund recognized by PRIMA POWER GmbH and by PRIMA POWER France Sarl to their employees;
- a liability for employee benefits accounted for by PRIMA INDUSTRIE SpA relevant the South Korea *branch office*.

The table below details the items employees benefit liabilities:

Employee benefits	September 30,2016	December 31,2015
Severance indemnity fund	5,471,255	5,831,601
Fidelity premium and other pension funds	2,206,235	2,081,181
<b>TOTAL</b>	<b>7,677,490</b>	<b>7,912,782</b>

**NOTE 6.15 - DEFERRED TAX LIABILITIES**

Deferred tax liabilities amounts to 9,788 thousand Euro, showing a decrease of 730 thousand Euro compared with December 31<sup>st</sup>, 2015.

**NOTE 6.16 - PROVISIONS**

The provisions for liabilities and charges are equal to 18,042 thousand Euro and increased by 2,095 thousand Euro compared with December 31<sup>st</sup>, 2015.

Non-current provisions refer exclusively to the agent client indemnity provision and amounts comprehensively to 147 thousand Euro.

Current provisions mainly relate to product warranties (equal to 10,013 thousand Euro) and to the best estimate of costs still to be incurred for the completion of certain activities ancillary to the sale of machinery already sold (equal to 7,516 thousand Euro). The warranty provision



relates to the provisions for technical interventions on the Group's products and is considered appropriate in comparison to the warranty costs which have to be provided for.

The other provisions amounting to 366 thousand Euro refer to legal, fiscal procedures and other disputes; these provisions represent the best estimate by management of the liabilities which must be accounted for with regard to legal, fiscal proceedings occasioned during normal operational activity with regard to dealers, clients, suppliers or public authorities.

#### NOTE 6.17 - TRADE PAYABLES, ADVANCE PAYMENTS AND OTHER PAYABLES

The value of payables increased compared to December 31<sup>st</sup>, 2015 by 2,533 thousand Euro. It has to be noted that the Clients advance payments heading contains both the advance payments on orders relating to machines which have not yet been delivered, as well as those generated by the application of the IAS 18 accounting principle relating to machines already delivered, but not yet accepted by the end client and therefore not recognized as revenue. Other payables includes social security and welfare payables, payables due to employees, accruals and deferrals and other minor payables.

For more details on the figure, see the table below.

Trade, advances and other payables	September 30,2016	December 31,2015
Trade payables	74,125,444	78,323,460
Advances	26,922,178	21,385,159
Other payables	20,412,032	19,218,309
<b>TOTAL</b>	<b>121,459,654</b>	<b>118,926,928</b>

#### NOTE 6.18 - CURRENT TAX PAYABLES

Tax payables for current taxes on September 30<sup>th</sup>, 2016 amounts to 5,464 thousand Euro which results in a reduction of 1,794 thousand Euro compared with December 31<sup>st</sup>, 2015 (7,258 thousand Euro on December 31<sup>st</sup>, 2015).

#### NOTE 6.19 - NET REVENUES

The revenues from sales and services have been increased and commented on chapter 3 of this document "Group Interim Management Report" in the paragraph "Revenues and Profitability".

#### NOTE 6.20 - OTHER INCOME

Other income amount to 2,284 thousand Euro, and they are in decrease of 1,326 thousand Euro compared to the first nine months 2015 (at September 30<sup>th</sup>, 2015 they amounted to 3,610 thousand Euro)

#### NOTE 6.21 - INCREASES IN FIXED ASSETS FOR INTERNAL WORK

The increases in fixed assets for internal work on September 30<sup>th</sup>, 2016 amount to 7,926 thousand Euro and refer mainly to the capitalization of new project development costs (7,665 thousand Euro) for new products and new related functions and/or applications, for new software developments and for material *handling* and *storage automation* projects. For these capitalized projects, the technical feasibility has been verified as well as the generation of

probable future economic benefits. The capitalized development activity has been carried out by the Parent Company, by FINN-POWER OY, by FINN-POWER ITALIA Srl, by PRIMA POWER LASERDYNE LLC, by PRIMA ELECTRO SpA, and by PRIMA ELECTRO NORTH AMERICA LLC.

#### NOTE 6.22 - PERSONNEL COST

The personnel costs at September 30<sup>th</sup>, 2016 amount to 75,011 thousand Euro (74,195 thousand Euro at September 30<sup>th</sup>, 2015).

#### NOTE 6.23 - DEPRECIATION AND IMPAIRMENT

Depreciation at September 30<sup>th</sup>, 2016 amounts to 11,578 thousand Euro (of which 8,688 thousand Euro are related to intangible assets).

It has to be highlighted that amortization costs relating to the trademark and "customers list" amount to a comprehensive 2,353 thousand Euro, while those relating to development costs amount to 5,751 thousand Euro.

During the first nine months of 2016 an *impairment* amounting to 127 thousand Euro relating mainly to development costs of the PRIMA ELECTRO division has been accounted for.

#### NOTE 6.24 - OTHER OPERATING EXPENSES

The Other operating expenses for the first nine months of 2016 amounted to 61,895 thousand Euro and are in decrease of 1,277 thousand Euro compared to the same period of the previous financial year.

#### NOTE 6.25 - FINANCIAL INCOME AND EXPENSES

The financial management of the first nine months of 2016 shows a negative result of 5,425 thousand Euro.

Financial Management	September 30, 2016	September 30, 2015
Financial income	650,989	718,889
Financial expenses	(5,382,625)	(7,421,334)
<b>Net financial expenses</b>	<b>(4,731,636)</b>	<b>(6,702,445)</b>
Net exchange of transactions in foreign currency	(693,602)	(918,509)
<b>Total Financial Management</b>	<b>(5,425,238)</b>	<b>(7,620,954)</b>

It should be noticed that the financial costs at September 30<sup>th</sup>, 2016 include financial expenses for 1,811 thousand Euro relevant to the issue of the *Bond*, 997 thousand Euro relevant to the new *Club Deal* loan and 491 thousand Euro relevant to the *Finnish Loan*. It should also be noted that, the financial charges at September 30<sup>th</sup>, 2015 included extraordinary expenses held between February and March 2015, following the full early repayment of the FINPOLAR loan, amounting to 2,123 thousand Euro. These costs relate mainly to hedging derivatives subscribed with FINPOLAR loan.

**NOTE 6.26 - NET RESULT OF INVESTMENTS ACCOUNTED FOR USING THE NET EQUITY METHOD**

The net result of investments accounted for using the net equity method was positive for 332 thousand Euro and refers to the capital gain generated by the sale of part of EPS SA shares.

**NOTE 6.27 - CURRENT AND DEFERRED TAXES**

Income taxes in the first nine months of 2016 result in a positive net balance of 1,598 thousand Euro. The balance of current and deferred taxes is negative by 1,215 thousand Euro, IRAP is equal to 332 thousand Euro and other taxes, including those relating to prior years, amount to 51 thousand Euro.

**NOTE 6.28 - EARNING PER SHARE**

The earnings per share on September 30<sup>th</sup>, 2016, positive for 0.53 Euro (0.25 Euro on September 30<sup>th</sup>, 2015) is calculated by dividing the profits attributable to the shareholders of the Parent Company by the weighted average number of ordinary shares in circulation during the period which is 10,483,274. The diluted earnings per share is equal to the earning per share because at September 30<sup>th</sup>, 2016 there are no dilutive operations.

**NOTE 6.29 - INFORMATION ON RELATED PARTIES**

In addition to transactions with the strategic management and the Board of Statutory Auditors, transactions with related parties are attributable to transactions with EPS SpA (100% owned by EPS SA) mainly for research and development of special electronic components.

OPERATIONS WITH RELATED PARTIES	Strategic Management	Board of Statutory Auditors	EPS	TOTAL
RECEIVABLES AS AT January 1, 2016	-	-	221,005	221,005
RECEIVABLES AS AT September 30, 2016	-	-	244,189	244,189
PAYABLES AS AT January 1, 2016	512,896	105,000	1,283	619,179
PAYABLES AS AT September 30, 2016	404,756	76,750	-	481,506
REVENUES Jan.1, 2016 - Sep. 30, 2016	-	-	349,319	349,319
COSTS Jan.1, 2016 - Sep. 30, 2016	871,759	76,750	-	948,509
<b>VARIATIONS IN RECEIVABLES</b>				
Jan.1, 2016 - Sep. 30, 2016	-	-	23,184	23,184
<b>VARIATIONS IN PAYABLES</b>				
Jan.1, 2016 - Sep. 30, 2016	(108,140)	(28,250)	(1,283)	(137,673)

**NOTE 6.30 OPERATING SEGMENTS**

It has to be noted that not all the figures shown below are directly comparable with those presented in chapters "3 - Group Interim Management Report" and "4 - Economic Performance by Segment", given that the last ones are expressed as gross of the inter-sector parties.

**Information by operating segments**

The inter-sector revenues have been determined based on market prices.

The operational sectors of the group are the following two:

- PRIMA POWER
- PRIMA ELECTRO

Further details relevant to operating segments are shown below:

Segment results as at September 30, 2016	PRIMA POWER	PRIMA ELECTRO	Items not allocated	TOTAL
Total sector revenues	256,235	30,384	-	286,619
(Inter-sector revenues)	(258)	(11,825)	-	(12,083)
<b>Revenues</b>	<b>255,977</b>	<b>18,559</b>	<b>-</b>	<b>274,536</b>
<b>EBITDA</b>	<b>23,620</b>	<b>402</b>	<b>-</b>	<b>24,022</b>
<b>EBIT</b>	<b>14,730</b>	<b>(2,414)</b>	<b>-</b>	<b>12,316</b>
Net financial income/expenses	(4,995)	(430)	-	(5,425)
Net result of investments accounted for using the equity method	-	332	-	332
<b>Profit before taxes</b>	<b>9,735</b>	<b>(2,512)</b>	<b>-</b>	<b>7,223</b>
Taxes	-	-	(1,598)	(1,598)
<b>Net result</b>	<b>9,735</b>	<b>(2,512)</b>	<b>(1,598)</b>	<b>5,625</b>

*EBIT and EBITDA values here presented are not directly reconcilable with the data presented in Chapter 4 - ECONOMIC PERFORMANCE BY SEGMENT since they are presented at net of inter-sector items.*

Segment assets and liabilities as at September 30, 2016	PRIMA POWER	PRIMA ELECTRO	Items not allocated	TOTAL
Assets	337,341	62,527	45,072	444,940
Associates and other equity investments	116	1,169	-	1,285
<b>Total assets</b>	<b>337,457</b>	<b>63,696</b>	<b>45,072</b>	<b>446,225</b>
Liabilities	131,752	15,427	166,683	313,862

Segment results as at September 30, 2015	PRIMA POWER	PRIMA ELECTRO	Items not allocated	TOTAL
Total sector revenues	227,842	43,535	-	271,377
(Inter-sector revenues)	(55)	(11,227)	-	(11,282)
<b>Revenues</b>	<b>227,787</b>	<b>32,308</b>	<b>-</b>	<b>260,095</b>
<b>EBITDA</b>	<b>16,151</b>	<b>5,566</b>	<b>-</b>	<b>21,717</b>
<b>EBIT</b>	<b>8,343</b>	<b>3,473</b>	<b>-</b>	<b>11,816</b>
Net financial income/expenses	(7,242)	(379)	-	(7,621)
Net result of investments accounted for using the equity method	-	(105)	-	(105)
Net result of other investments	6	-	-	6
<b>Profit before taxes</b>	<b>1,107</b>	<b>2,989</b>	<b>-</b>	<b>4,096</b>
Taxes	-	-	(1,874)	(1,874)
<b>Net result</b>	<b>1,107</b>	<b>2,989</b>	<b>(1,874)</b>	<b>2,222</b>

*EBIT and EBITDA values here presented are not directly reconcilable with the data presented in Chapter 4 - ECONOMIC PERFORMANCE BY SEGMENT since they are presented at net of inter-sector items.*

Segment assets and liabilities as at September 30, 2015	PRIMA POWER	PRIMA ELECTRO	Items not allocated	TOTAL
Assets	311,903	58,450	54,558	424,911
Associates and other equity investments	116	1,174	-	1,290
<b>Total assets</b>	<b>312,019</b>	<b>59,624</b>	<b>54,558</b>	<b>426,201</b>
Liabilities	117,055	18,000	164,906	299,961

### Information by geographic area

For details regarding revenues subdivided by geographical area, refer to Chapter 3 "Group Interim Management Report", paragraph "Revenues and Profitability".

**NOTE 6.31 - MANAGEMENT OF FINANCIAL RISKS**

Financial instruments of the Group, aimed at financing the operational activity, include the bank financing, the financial leasing contracts and factoring, the cash and short term bank deposits. There are then other financial instruments, such as commercial payables and receivables, deriving from the operational activity.

PRIMA INDUSTRIE Group is mainly exposed to the following categories of risk:

- Interest rate risk
- Exchange rate risk
- Credit risk
- Liquidity risk

The Group adopted specific policies with the aims of correctly managing the risks mentioned, in order to safeguard its own activity and capacity to create value for shareholders and for all the stakeholders.

The objectives and politics of the Group for the management of risks described above are detailed below.

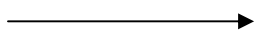
**Interest rate risk**

The debit position towards the credit system and capital markets can be negotiated at a fixed or variable rate.

Variations of interest rate in the market generate the following categories of risk:

- an increase in market interest rates exposes to the risk of greater financial burdens to be paid on the quota of variable interest rate debits;
- a decrease in market interest rates exposes to the risk of excessive financial burdens to be paid on the quota of fixed interest rate debits.

In particular, the strategies adopted by the Group to confront these risks are as follows:

- Interest rate  Management/Hedging

Exposure to interest rates is by nature structural, in that the net financial position generates net financial burdens subject to the volatility of interest rates, according to the contractual conditions established with the financing party. Consequently, the identified strategy is of Management/Hedging and is confirmed by:

- Continuous Monitoring of the exposure to interest rate risks;
- Hedging activity through derivative financial instruments.

At the date of approval of this Half-year Financial Report, the Group has not enter into any derivative financial instrument to hedge the interest rate risk; in the future the Group could decide to hedge this risk using derivative instruments.


**Exchange rate risk**

The debit position towards the banking system and the capital market, as well as towards other creditors, can be expressed in one's own account currency (Euro), or in other currencies

on account. In this case, the financial burden of the debit in currency is subject to the interest rate risks, not of the European market, but of the market of the chosen currency. The attitude and strategy to follow with regards to risk factors are determined by the plurality of elements which concerned both the characteristics of the reference market and their impact on the company balance sheet results. Indeed, four possible strategic and distinctive areas for the operational management of individual risk factors can be identified:

- “Avoid” strategy (Avoidance)
- Acceptance
- Management/Hedging
- “Market Intelligence” (Speculation)

In particular, the strategies primarily adopted by the Group to confront these risks are as follows:

- Exchange rate                       Management/Hedging

Exposure to exchange rate risks deriving from financial factors is currently contained, in that the company does not take on financing in currency different from the Euro, with the exception of some financing of the U.S. subsidiaries, for which the U.S. dollar is the reference currency.

In relation to the commercial transactions, on the other hand, at Group level there exists a certain exposure to exchange rate risk, because the fluctuations of purchase in U.S. dollars (substantially the only relevant accounting currency different from the Euro) of the Parent Company PRIMA INDUSTRIE SpA, of FINN-POWER OY and of PRIMA ELECTRO SpA are not sufficient to balance the fluctuations of sales carried out in U.S. dollars and because the Group also works with other currencies for which hedging transactions are not available.

The Group has recently provided itself with guidelines for managing the foreign exchange risk in the major currencies in which it operates (mainly the US dollar and Chinese renminbi). The goal is to cover the budget results from the exchange risk, through the subscription of hedging derivatives. This hedging is managed by the Parent Company PRIMA INDUSTRIE SpA.

The Group carries out *monitoring* to reduce such exchange risks even through the use of covering instruments.

With regard to account currencies different from the U.S. dollar and Chinese Renminbi not hedged by *ad hoc* derivatives, the risk management strategy is rather one of acceptance, both because they normally deal with sums of modest value, and because of the difficulty of finding suitable covering instruments.

### Credit risk

The Group only deals with noted and trustworthy clients; furthermore, the amount of credit is monitored during the financial year so that the sum exposed to losses is not significant.

For this purpose, with regards to PRIMA INDUSTRIE, a function of Group of *credit management* has been put in place.

It should be noted that there are no significant concentrations of credit risk within the Group. The financial activities are shown in the balance sheet net of the devaluation calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and eventually considering historical data. In compliance with the CONSOB DEM/RM 11070007 communication of August 5<sup>th</sup>, 2011, we inform that the PRIMA INDUSTRIE Group Holds no bonds issued by central and local governments or by government bodies, and has certainly not granted loans to these institutions.

### Liquidity risk

The liquidity risk represents the risk that the financial resources are not sufficient to fund the financial and commercial obligations within the pre-established periods and due dates.

The risk of liquidity to which the group is subject may emerge from late payments on its sales and more generally from the difficulty of obtaining financing to support operational activities in the time necessary. The cash flows, the financing needs and the liquidity of the group companies are monitored or managed centrally under the control of the Group Treasury, with the aims of guaranteeing effective and efficient management of financial resources.

The Group operates with the aims of carrying out collection operations on the various financial markets with varied techniques, with the aims of guaranteeing a correct level of liquidity whether current or prospective. The strategic aim is to ensure that at any moment of the group has sufficient credit lines to service financial due dates over the following twelve months.

The current difficult market environment whether operational or financial requires particular attention to the management of liquidity risks and, in this sense, particular attention is given to those actions aimed at generating financial resources through operational management and the maintenance of an adequate level of available liquidity.

Therefore, the group has arranged to confront the requirements emerging from financial payable due dates and from the investments, through the fluctuations caused by operational management, available liquidity, use of credit lines, the renewing of bank loans and eventual recourse to other forms of provision of a non-ordinary nature.

### NOTE 6.32 - SUBSEQUENT EVENTS

No events occurred after the date of the Interim Management Report which, if known, would have resulted in a correction of the values.

Signature of the authorized governing body



## ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30<sup>th</sup>, 2016

Declaration pursuant to article 154-bis, paragraph 2 of Part IV, Title III, Chapter II, Section V bis of Legislative Decree of February 24<sup>th</sup>, 1998, no. 58: Consolidated Law on Financial Intermediation, pursuant to Articles 8 and 21 of the Law of February 6<sup>th</sup>, 1996, No. 52.

The manager responsible for preparing the company accounting documents of the PRIMA INDUSTRIE Group, Davide Danieli, declares, in accordance with the provisions of the second paragraph of Art. 154 bis, Part IV, Title III, Chapter II, Section V bis of Legislative Decree of February 24<sup>th</sup>, 1998, No. 58, that the accounting information contained in this Interim Financial Report at March 31<sup>st</sup>, 2016 corresponds to the document results, books and accounting records.