



PRIMA INDUSTRIE

**2007 REPORT ON OPERATIONS
AND THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2007**

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**FINANCIAL STATEMENTS AS OF 31 DECEMBER 2007**

**Approved by the Board of Directors on 27 March 2008**

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

Fully-paid share capital 11,500,000 euros

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

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

**BOARD OF DIRECTORS <sup>(1)</sup>*****Chairman and Managing Director***

Gianfranco Carbonato

***Directors***

Ezio Basso <sup>(7)</sup>

Stefano Devescovi <sup>(6)</sup>

Sandro D'Isidoro <sup>(2)</sup>

Michael R. Mansour <sup>(6)</sup>

Mario Mauri <sup>(2)</sup>

Domenico Peiretti

Pio Pellegrini <sup>(2) (3)</sup>

Marco Pinciroli (Managing Director) <sup>(5)</sup>

***Secretary***

Massimo Ratti

**General Manager**

Ezio Basso

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

Riccardo Formica

***Auditors***

Andrea Mosca

Roberto Petrignani

***Alternate Auditors***

Roberto Coda

Franco Nada

**AUDITING COMPANY**

PricewaterhouseCoopers S.p.A.

<sup>(1)</sup> Appointed at the Stockholders' Meeting held on 13.05.05 for the three-year period 2005-2007

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

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

<sup>(4)</sup> Appointed at the Stockholders' Meeting held on May 14, 2007 for the three-year period 2007-2009

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

<sup>(6)</sup> Appointed at the Stockholders' Meeting held on May 14, 2007 until the approval of the 2007 Financial Statements.

<sup>(7)</sup> Appointed at the Stockholders' Meeting held on June 28, 2007 until the approval of the 2007 Financial Statements.

**POWERS RELATING TO COMPANY APPOINTMENTS**

By a resolution of 07.06.05, the Board of Directors appointed Mr. Gianfranco Carbonato as the Chief Executive Officer and determined his powers.

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

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## 2007 REPORT ON OPERATIONS

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**1. STRUCTURE OF THE PRIMA INDUSTRIE GROUP AS OF 31/12/2007**

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## 2. INTRODUCTION

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### □ REGULATORY FRAMEWORK

In application of EC Regulations No. 1606 dated 19 July 2002, the PRIMA INDUSTRIE Group prepared the consolidated financial statements of 31 December 2007 in accordance with the International Accounting Principles approved by the European Commission (hereinafter referred to individually as the IAS/IFRS or together, as IFRS).

The consolidated financial statements as of 31/12/07 include the following components

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

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



It should be noted that, as of 31/12/2007, the following companies were consolidated:

| SUBSIDIARY COMPANIES                   | Registered office                                                                                                | Capital stock  | Stake | Method of consolidation |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------|-------|-------------------------|
| PRIMA ELECTRONICS S.p.A.               | Strada Carignano 48/2, 10024 Moncalieri, Turin                                                                   | € 1.500.000    | 100%  | Net asset method        |
| PRIMA North America, Inc.              | CONVERGENT LASERS Divison &<br>PRIMA LASER SYSTEMS Division:<br>711 East Main Street, Chicopee, MA 01020, U.S.A. | USD 24,000,000 | 100%  | Net asset method        |
|                                        | LASERDYNE SYSTEMS Division:<br>8600, 109th Av. North, Champlin, MN 55316, U.S.A.                                 |                |       |                         |
| OSAI S.p.A                             | Via Torino 14, 10010 Barone Canavese, Turin                                                                      | € 1.172.000    | 100%  | Net asset method        |
| OSAI-USA, LLC                          | 105A West Dudley Town Road, Bloomfield,<br>CT 06002, U.S.A.                                                      | USD 39,985     | 100%  | Net asset method        |
| OSAI UK LTD.                           | Mount House - Bond Avenue, Bletchley,<br>MK1 1SF Milton Keynes, UK                                               | GBP 160,000    | 82%   | Net asset method        |
| OSAI GmbH                              | Am Stegskeuz 6, 65719 Hofheim, Germany                                                                           | 25000          | 100%  | Net asset method        |
| Techmark S.r.l.                        | Via Torino 14, 10018 Barone Canavese, Turin                                                                      | 50000          | 100%  | Net asset method        |
| PRIMA INDUSTRIE GmbH                   | Lise-Meitner Strasse 5, Dietzenbach, Germany                                                                     | € 500.000      | 100%  | Net asset method        |
| PRIMA SCANDINAVIA AB                   | Mölnsdalsvägen 30 C, Göteborg, SE                                                                                | SEK 100,000    | 100%  | Net asset method        |
| PRIMA INDUSTRIE UK LTD.                | Unit 1, Phoenix Park, Bayton Road,<br>Coventry CV7 9QN, UK                                                       | GBP 1          | 100%  | Net asset method        |
| PRIMA INDUSTRIE POLSKA Sp.z.o.o.       | ul. Przemysłowa 25 - 32-083 Balice                                                                               | PLN 350,000    | 100%  | Net asset method        |
| PRIMA INDUSTRIE (Beijing) Company Ltd. | Rm.1 M, no. 1 Zuo Jiazhuang. Guomen Building, Chaoyang District Beijing, People's Republic of China              | € 500.000      | 100%  | Net asset method        |

The company e-Motion GmbH, controlled through OSAI S.p.A. was sold during the last quarter of 2007.

| ASSOCIATED COMPANIES AND JOINT VENTURES      | Registered office                                                                                                                                        | Capital stock  | Stake  | Method of consolidation |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------|-------------------------|
| Shenyang PRIMA Laser Machine Company Ltd     | 45 Huanghai Rd, Yuhong District                                                                                                                          | USD 2,000,000  | 50%    | Equity method           |
| SNK PRIMA Company Ltd                        | Misaki Plant Fuke, Misak Sennan-Gun, Osaka Japan, Shanghai 201111                                                                                        | Yen 90.000000  | 50%    | Equity method           |
| Shanghai Unity PRIMA Laser Machinery Co Ltd. | 2019, Kunyang Rd., Shanghai 201111 - China                                                                                                               | Rmb 16,000,000 | 27,50% | Equity method           |
| Wuhan OVL Convergent Laser Co., Ltd.         | Building No.1, Great Wall Technology Industry Park, no.1, Townson Lake Road, Wuhan East Lake High-Tech Development Zone Wuhan, 430223, Hubei, P.R. China | USD 6,800,000  | 30,0%  | Equity method           |
| Macro Meccanica S.p.A. in liquidation        | Via don Sapino 134, 10040 Venaria, Fraz. Savonera, Turin                                                                                                 | L./mil. 630    | 35,5%  | Equity method           |

#### ALTERNATIVE PERFORMANCE INDICATORS/CASHFLOW STATEMENT OUTLINE

The Group and the company, in measuring their income performance, in addition to the indicators anticipated in the layout of the Financial Statement prepared in accordance with International Accounting Standards, also use EBITDA ("Earnings before interest taxes and depreciation and amortization), which is determined by adding the Operating Income, as per the Financial Statements, to the item "Amortization, depreciation and writedowns" and Working Capital, calculated by adding "Inventories" and "Trade receivables" net of "Trade payables" and "Advances".

As regards the Cash-flow Statement the Company elected the so-called "indirect" method, in which financial flow is determined net of operating activities adjusting the earnings and losses for:

- non monetary elements such as depreciation, impairment, profits and losses on exchange and associated unrealized items;
- the changes in inventories, receivables and payables generated by the operating activities;
- other elements where the financial flows are generated from investment activities and from financing.

| CURRENCY       | AVERAGE EXCHANGE RATE FOR THE PERIOD |            | CURRENT EXCHANGE RATE AT THE END OF THE PERIOD |            |
|----------------|--------------------------------------|------------|------------------------------------------------|------------|
|                | 31/12/2007                           | 31/12/2006 | 31/12/2007                                     | 31/12/2006 |
| US DOLLAR      | 1.344439                             | 1.244163   | 1.4179                                         | 1.266      |
| POUND STERLING | 0.676541                             | 0.684722   | 0.6968                                         | 0.6777     |
| SWEDISH KRONA  | 9.236816                             | 9.294216   | 9.2147                                         | 9.2797     |

## □ GENERAL INFORMATION

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

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

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

In May 2000, the Company acquired Convergent Energy Inc. in the United States. Through this acquisition, the PRIMA Group integrated the knowledge required to internationalize its design and manufacture of CO2 and solid-state lasers, in addition to strengthening its own presence on the US market.

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

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

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

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

In addition to these companies in 2007 PRIMA INDUSTRIE POLSKA Sp.z.o.o. was set up for Polish market coverage, as well as PRIMA INDUSTRIE (Beijing) Co. Ltd. which absorbed those activities previously pursued by Beijing office, founded earlier.

In 2005 the Group enhanced its hold in the laser sources sector with the set-up of a joint venture in China between the Convergent Lasers division of PRIMA North America and Wuhan Optics Valley Laser Technology for the manufacture and distribution of CO2 lasers in China; during 2006, we

strengthened our direct presence in the power electronics sector with acquisition of a controlling stake in M.L.T.A. S.r.l., later on integrated to PRIMA ELECTRONICS S.p.A. by corporate merger.

During 2007 PRIMA INDUSTRIE Group has strengthened its presence in the electronic segment, thanks to PRIMA ELECTRONICS S.p.A. acquisition of OSAI S.p.A.

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

This mission perfectly goes with the choice of FINN-POWER acquisition. The Finnish Group products, whose turnover in 2007 was 241 million Euro wholly match with those of PRIMA INDUSTRIE ones.

The agreement for the acquisition of 100% of Finn-Power Oy was signed on February 4th, 2008 and thanks to this operation, PRIMA has steadily placed itself among top Groups, at world level, in the field of sheet treatment application.

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

The proposed financial statements were approved by the Board of Directors on March 27, 2008.

### 3. BUSINESS TREND

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#### Message To Shareholders

Ladies and Gentlemen,

the 2007 annual report which the Board of Directors submit to your approval is even better than 2006's which, in our last message to shareholders, we defined as "the best in the history of the Group".

Sales, in fact, reached € 176.4 m, up almost 20% on 2006, and all profit ratios recorded a remarkable improvement:

- EBITDA up 27% to €25.1 m (14.2% on net sales)
- EBIT up 28% to €23.6 m
- EBT up 30% to €22.9 m
- Net Profit unchanged at € 13.7 m compared to the previous year which, as known, benefited from a reduced tax rate due to the use of carry forward previous losses relevant to PRIMA North America.

Order acquisition was also up 12% to € 184.9 m and the year-end backlog amounted to € 63.8 m (+15%).

The growth in orders, sales and production value (up 25% to € 183.0 m) was largely organic, but was also, to a lesser extent, due to the acquisition of the OSAI Group, which was consolidated from July 1st, 2007. In this period OSAI has contributed for € 9.4 m to sales, for € 9.3 m in order intake and € 3.1 in the year-end backlog.

Subsequently, the internal growth has been however remarkable, due to the positive situation in our reference market which has grown 6% (Optech Consulting: laser macro processing systems), although the increase was lower than the record level of over 20% recorded in 2006.

It is well known that growth rates in the United States and in some European countries slew down in the second part of the year, mainly as a consequence of the financial crisis generated by the "sub-prime mortgages" affair. The consequence was the further weakness of the US Dollar and the strong increase of the oil price which are factor of raising concern in the first part of 2008.

Group revenues have increased for all product lines (laser systems, mainly 2D, and electronics) and in all main geographical markets. Also, in North America sales have increased in absolute values, notwithstanding the dilution (about 9%) caused by the weakness of the US Dollar against the Euro.

All main Group Companies have contributed to growth and profitability. The parent company PRIMA INDUSTRIE increased sales by 19% to € 111.4 m and EBITDA by 46% to € 10.9 m. PRIMA ELECTRONICS recorded extraordinary growth of 30% to € 28.1 m with EBITDA (IAS-IFRS) up 43% to € 5.0 m. Also, PRIMA North America consolidated the 2006 exceptional results with a limited increase (+2%) in sales to US\$ 64.9 m and EBITDA slightly decreasing (-4%) to US\$ 10.8 m.

There has also been significant growth in the Eastern Europe and Asia emerging markets, where the Group has further strengthened its commercial presence by establishing PRIMA INDUSTRIE POLSKA Sp.z.o.o. in Poland and PRIMA INDUSTRIE (BEIJING) Co. Ltd. in China, which have absorbed activities and personnel of the previous branch offices.

We remind that Group sales do not consolidate the joint venture Shanghai Unity PRIMA (where PRIMA INDUSTRIE is increasing its share from 27.5% to 35%) which has registered a record increase in sales (+88%) to RMB 187 m (value not including imported laser generators) and in net profit to RMB 31.8 m from RMB 10.7 m in 2006).

Also from the financial point of view, the year has been very positive with remarkable cash-flow generation which has resulted in a positive net financial position notwithstanding the investment for the acquisition of OSAI paid € 10.4 m.

Significant was also the investment in R&D during the year, totalling € 10.1 m (5.7% of Sales), which has been fully charged to P/L.

Group headcount at 31 December 2007 increased to 733 units (+34%). This increase is partially "internal" (about 9%), but is mainly due to the acquisition of OSAI (135 employees) which has been consolidated for only 6 months in the 2007 Group financial statements.

The OSAI acquisition has been one of the most important events of the year. It has been pursued and concluded in order to achieve a larger size and a higher international presence (OSAI has sales/service subsidiaries in USA, UK and Germany) for our electronics business.

Among the significant events of the year, it is also worth remembering:

- The delivery in April of the 500th laser of the CP family, developed and manufactured by PRIMA North America. At the year end, the number of CP lasers delivered to customers already exceeded 700 units.
- The unforgettable events in June, organized to celebrate the 30th anniversary of the foundation of the Group, with a plaque celebration offered to the co-founders Franco Sartorio and Gianmario Rossignolo. A fantastic dinner was held in an 18th century villa on the hills overlooking the city of Torino with all PRIMA INDUSTRIE employees and their families.
- The assignment, announced in June and occurred in October during a solemn ceremony at the Quirinale Palace in Rome, of the honorary title of "Labour Knight" to the undersigned. Such an acknowledgement, delivered by Giorgio Napolitano, President of the Italian Republic, has to be interpreted also as recognition to the whole Group and its employees for their commitment towards the outstanding results achieved so far.
- The delivery, at the end of October, of the 1000th PLATINO to an Italian customer during the Expolaser exhibition in Piacenza. One thousand machines have been delivered (of the same PLATINO family) representing an important recognition of the product by the market and its outstanding mostly in the field of high value capital goods.

It's then evident that 2007 was rich in events and results. This also reflected, in spite of the turbulence of the financial markets during the year, on the value of the stock, which rose 25% to about € 28.7 per share. PRIMA INDUSTRIE stock has also notably outperformed the AllSTAR segment index of the Italian Stock Exchange, which declined by 16% during 2007.

The most significant event by far which was closed on 02/04/2008, but which both Management and a consultants team worked on during the last part of 2007, has been the acquisition of Finn-Power Oy, a Finnish company with a 25 years history of growth and innovation in sheet metal fabrication machinery and systems.

The Finn-Power Group has headquarters in Kauhava (Finland), manufacturing facilities in Finland and Italy and subsidiaries in Italy, Germany, France, Belgium, Spain, the U.S. and Canada. The company mainly operates in the sheet metal working machine tool sector (punch presses,

punching/shearing cells and punching/laser cells, automatic bending cells and related material handling systems) and to a smaller extent, in the laser cutting machine tool sector, in which PRIMA INDUSTRIE Group is leader.

Finn-Power products are positioned in the mid-high range, have an average large size and are highly versatile: the company is well renowned for its factory-wide Flexible Manufacturing Systems.

The reference market for Finn-Power products is wide and overlaps substantially with those of PRIMA INDUSTRIE Group: telecommunications, HVAC (Heating, Ventilation and Air-Conditioning), electrical and lighting equipment, agricultural machines, home appliances and metal furniture.

Finn-Power Group has recorded in 2007, according to preliminary IAS-IFRS results, consolidated sales of €241.4 m (up 20% from 2006) with EBITDA at €23.1 m (up 108% from 2006).

Consequently, this transaction creates a global leader in laser and sheet metal working systems, with pro-forma revenues in excess of €400 m, a presence in 50 countries, 10 manufacturing facilities located in Italy, Finland, USA and China and over 1700 employees worldwide.

The Enterprise Value agreed for Finn-Power was €170 m, including the net financial debt at the date of closing. The Equity Value, which will be adjusted for the net financial debt at closing, includes a three year deferred payment of €25 m.

The transaction has been financed mainly by long-term facilities, provided for by Banca IMI (mandated lead arranger), Unicredit Banca di Impresa (mandated lead arranger) and Intesa Sanpaolo (financing bank).

A portion of this facility, of no less than €25 m, will be replaced within the next months with the proceeds of a rights issuing, for which a contract of assistance has been signed with Unicredit Markets & Investment Banking.

The main challenges for 2008 are the integration of PRIMA INDUSTRIE and Finn-Power Groups, the achieving of the foreseen cost and sales synergies as well as the cash generation in order to reduce the debt due to this acquisition since the first year. The new year started with a significant order backlog and with a still positive situation of the reference markets, in spite of repeated warnings of an expected recession, which has not occurred so far and which, in any case, should not significantly affect economies of the emerging markets.

All that considered and on the basis of the net profit achieved for 2007 (€2.99 earning per share against €2.98 in 2006, notwithstanding the much higher tax rate) the Board of Directors proposed to the Shareholders' Meeting a dividend of €0.65 per share unchanged from 2006.

The board wishes to thank all shareholders for the further support that they will provide the company for the coming capital increase in order to support the significant acquisition.

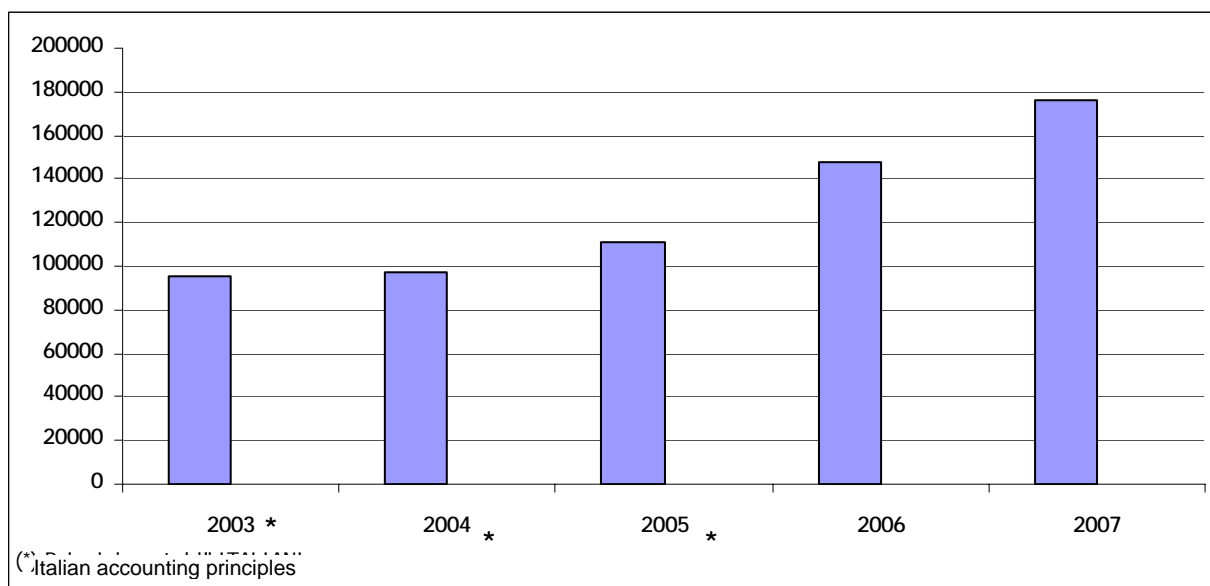
A sincere thanks to the management and to all employees of a Group which is now truly international and where the fundamental values of competence and commitment have driven the strong internal and external growth of these last years.

This is the basis on which we will work at our the best in order to ensure the Group a future made of growth and satisfaction for all its stakeholders.

## REVENUES AND PROFITABILITY

Consolidated revenues for 2007, valued in accordance with IAS 18 (that provides for the recognition of revenue generally at the time in which the risks and benefits of ownership of the product are transferred to the end customer) amount to €176,391,000, up 19.5% compared to €147,569,000 at 31/12/2006.

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



The distribution of sales into geographical area is as follows:

|                        | 12 MONTHS<br>31/12/2007 |              | 12 MONTHS<br>31/12/2006 |              |
|------------------------|-------------------------|--------------|-------------------------|--------------|
|                        | THOUSANDS<br>OF EURO    | %            | THOUSANDS<br>OF EURO    | %            |
| ITALY                  | 42,958                  | 24.4         | 35,786                  | 24.2         |
| EUROPE                 | 82,774                  | 46.9         | 68,400                  | 46.4         |
| NORTH AMERICA          | 29,762                  | 16.9         | 29,412                  | 19.9         |
| ASIA AND REST OF WORLD | 20,897                  | 11.8         | 13,971                  | 9.5          |
| <b>TOTAL</b>           | <b>176,391</b>          | <b>100.0</b> | <b>147,569</b>          | <b>100.0</b> |

As shown by the data, revenues grew significantly in Europe during the course of 2007 with an absolute increase of circa 20%. This important result derives from both the positive trends in core Western European markets as well as the continued excellent performance of the emerging



countries of Eastern Europe (Poland, Czech Republic, Slovakia, Russia, Turkey).which overall represent circa 10% of Group revenues.

The excellent performance in Europe not only concerned laser systems which were directly marketed by PRIMA INDUSTRIE or by its network of branch offices and subsidiaries in Europe but also the electronic products of PRIMA ELECTRONICS S.p.A. and OSAI S.p.A.

Revenues generated on the Italian market also reported an increase of circa 20%.

Asia and the Rest of the World also reported very good performances; in these countries, absolute growth was strong (+50%) with an increase in weighted % of consolidated revenues from 10% to circa 12%.

Stability of sales in North America, on the other hand, is connected to the strong depreciation dollar against the euro with respect to 31/12/2006 (-9% circa) which negatively affected the conversion of revenues expressed in dollars.

At the level of reference markets, the significant growth in the electronics sector was confirmed; this was also due to a new acquisition in addition to the continuing expansion of sales in the 2D sector (in particular PLATINO and SINCRONO) as well as the increase in revenues from post-sales services and spare parts.

As a result, total revenues as of 31.12.07 amounted to 183,047 thousand Euro, a growth of 25.5% compared to the same period in the previous year (145,873 thousand Euro); this was due to the presence of a higher number of laser systems already delivered but not yet booked as revenues at 31.12.07.

\* \* \* \* \*

|                     | 31/12/2007               |                   | 31/12/2006               |                   |
|---------------------|--------------------------|-------------------|--------------------------|-------------------|
|                     | <i>thousands of Euro</i> | <i>% of sales</i> | <i>thousands of Euro</i> | <i>% of sales</i> |
| <b>EBITDA</b>       | 25,108                   | 14.2              | 19,797                   | 13.4              |
| <b>EBIT</b>         | 23,584                   | 13.4              | 18,467                   | 12.5              |
| <b>EBT</b>          | 22,901                   | 13.0              | 17,577                   | 11.9              |
| <b>NET EARNINGS</b> | 13,747                   | 7.8               | 13,720                   | 9.3               |

All the profitability indexes showed significant growth compared to the previous years' figures, as a consequence of the operating lever effect and the economies of scale and learning achieved during the year.

Group **EBITDA** at 25.108 thousand Euro (14.2% of turnover) increased by 27% compared to 19.797 thousand Euro at 31/12/2006 (13.4% of turnover).

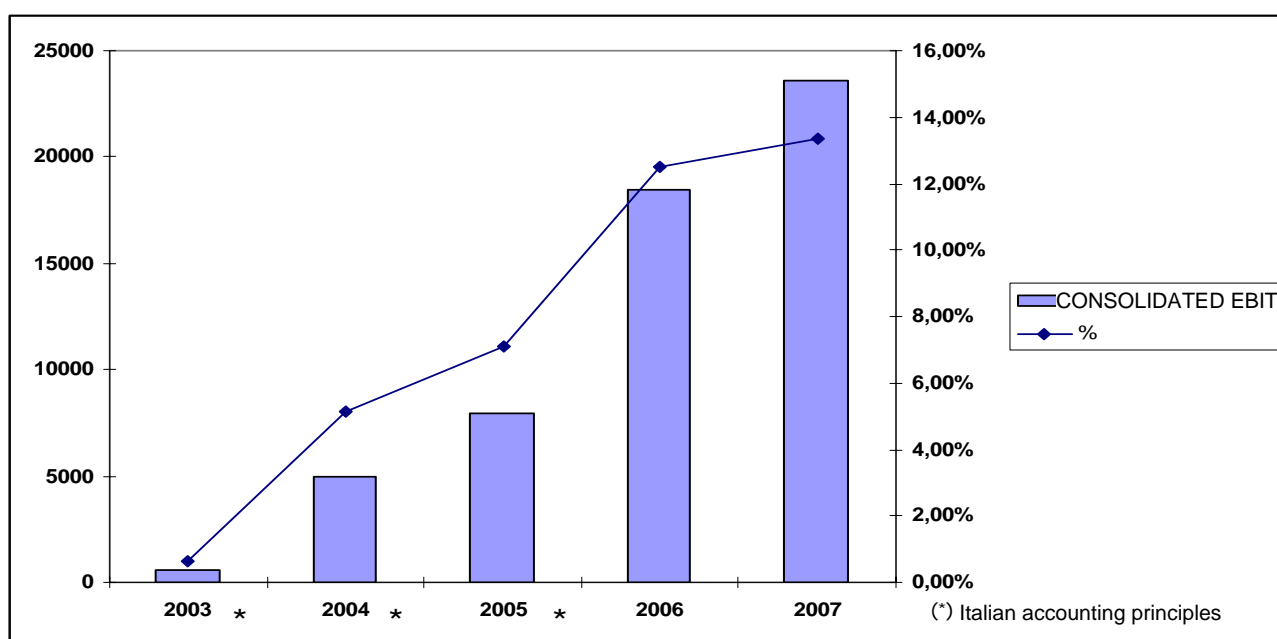
The **consolidated EBIT** (23,584 thousand Euro, equal to 13.4% of turnover) grew by 28% compared to the 18,467 thousand Euro at 31.12.06 (12.5% of turnover).

The increase in operating profit is reflected in the **profit before tax** at 31.12.07 that amounted to 22,901 thousand Euro, compared to the 17,577 thousand Euro at 31.12.06 (up +30%).

The **net profit** of the Group at 31.12.07 amounted to 13,747 thousand Euro (of which 18 thousand Euro relative to minorities) compared to the 13,720 thousand Euro on 31.12.06 (of which 14 thousand Euro relative to minorities), a 0.2% increase as a result of the greater fiscal burden compared to the same period of the previous financial year that instead still benefited from the considerable prior year tax losses relative to PRIMA North America.

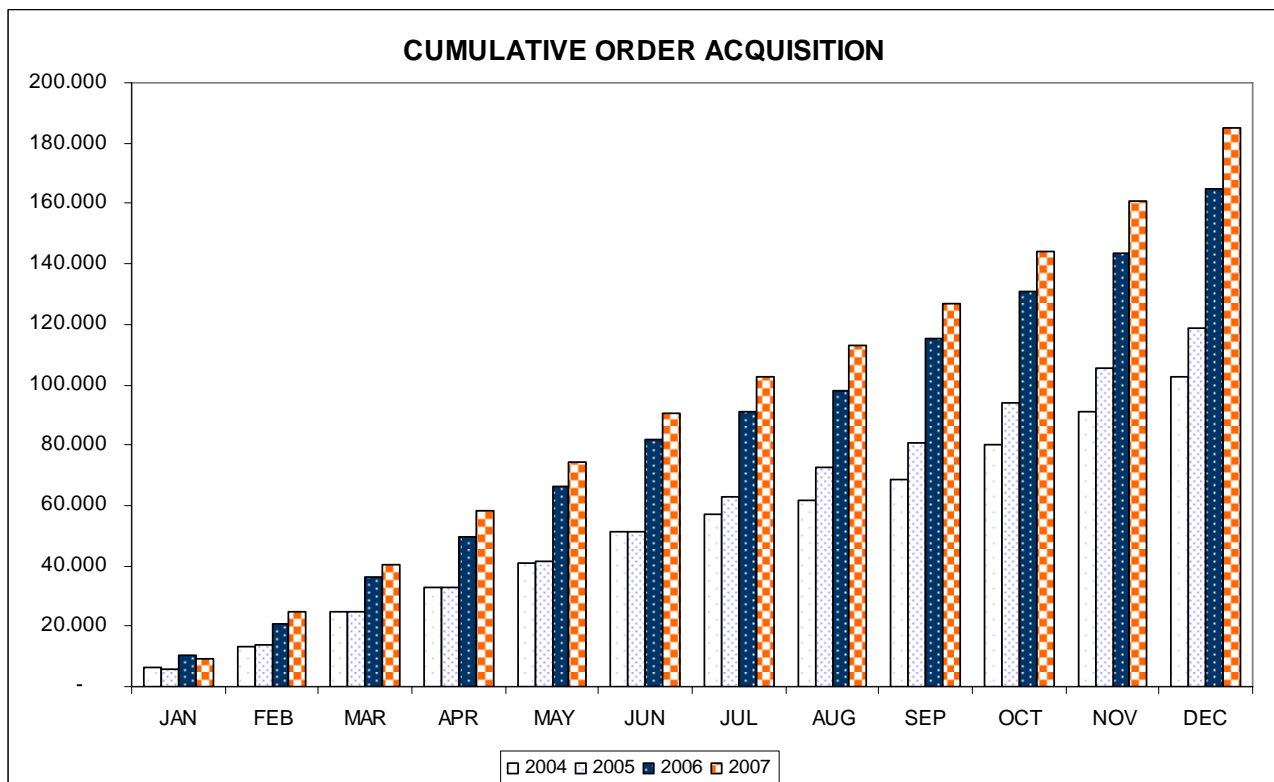
With regards to Italian companies, it should also be noted that the tax calculation did not take into account the benefit derived from the R&D tax credit provided by paragraphs 280, 281 and 282, Art. 1, Law no. 296 of 27/12/2006 (2007 Financial Act) given that the Ministerial Decree relative to application modalities was not yet published on the Official Gazette; as a result, the requirements needed for precisely determining the credit are not yet present. The IAS/IFRS consider this element necessary for booking the relative credit in the financial statements.

### Operating profit – (EBIT)/Turnover



### ORDERS ACQUISITION AND THE ORDERS PORTFOLIO

At 31.12.07, the **consolidated orders acquisition** amounted to 184,861 thousand Euro (including 9,320 thousand Euro relative to the OSAI group from 1/7 to 31/12/2007), with an increase of 12% compared to the 164,988 thousand Euro of the same period of 2006.



In particular, order intake in the laser systems and sources segment stood at 130.357 thousand Euro (124.174 thousand Euro in 2006), while in the electronic products segment for third-party customers it was 31.028 thousand Euro in 2006 (17.631 thousand Euro in 2006), of which 9.320 thousand Euro relative to the OSAI GROUP acquired on 2/7/07.

The growth in orders during the course of the year confirmed, in particular, the growth of the 2D and electronics sector (only partially attributable to the consolidation of the recently acquired OSAI group for six months) and the increased demand for Convergent laser sources in the Chinese market.

In addition to the positive economic climate and strong sales activities, the growth in order intake was due to important activities which saw the Group take part in the most important tradeshows in the sector in all the main European markets, including, by way of example, MSV (Brno – Czech Republic), MAQUITEC (Barcelona – Spain), EMO of Hanover (Germany), Mashinostroenie (Moscow – Russia), Mach- Tool (Poznan – Poland), Blechexpo (Stuttgart – Germany), Expolaser (Piacenza).

Outside of Europe, the Group took part in other prestigious exhibitions namely CMTS (Toronto – Canada), Fabtech (Chicago – USA), Steel Fab 2007 (Sharjah – UAE), CIMT (Beijing - China), Feimafe 2007 (Sao Paulo – Brazil), Austech 2007 (Melbourne - Australia).

The excellent orders collection results during the year were also a consequence of the Group's commercial policy, whereby our direct presence on the main geographical reference markets was increased. In May 2007, PRIMA INDUSTRIE POLSKA Sp.z.o.o. was founded in Poland.

The **Consolidated Orders portfolio** was also excellent as of 31.12.07 and was set at 63,789 thousand Euro (including 3,126 thousand Euro relative to the OSAI Group), with an increase of 15% compared to the 55,568 thousand Euro at 31.12.06.

At the end of February 2008, the orders portfolio further increased to 68.869 thousand Euro.

□ NET FINANCIAL POSITION

|                               | 31/12/07     | 30/09/07       | 31/12/06     |
|-------------------------------|--------------|----------------|--------------|
| CASH                          | 21,830       | 15,784         | 20,971       |
| SHORT-TERM BORROWINGS         | (5,577)      | (1,812)        | (5,232)      |
| MEDIUM-, LONG-TERM BORROWINGS | (15,180)     | (19,389)       | (12,663)     |
| <b>TOTAL NET EXPOSURE</b>     | <b>1,073</b> | <b>(5,417)</b> | <b>3,076</b> |

As of 31/12/2007, the net financial position was positive and equal to 1,073 thousand Euro.

This figure takes into account the payment of the price relative to the acquisition of OSAI (which occurred in July 2007 for circa 9.6 million Euro, including accessory charges) as well as the distribution of dividends for circa 3 million Euro.

Despite these payments, the net financial position remains positive as a result of the excellent cash flow of the Group.

Financial borrowing highlights the overall exposure to credit institutions and other lenders (including leasing fees).

Compared to 31/12/2006, new loans for 7,000 thousand Euro were stipulated, whereas loans and financing worth a total of 5,821 thousand Euro were repaid (including leasing and Sabatini reimbursements with recourse).

The item “*Short-term borrowings from banks*” almost entirely consists of medium-term loan instalments, which expire during 2008.

Bank overdrafts at 31 December 2007 stood at 359 thousand Euro versus the 413 thousand Euro on 31 December 2006.

The composition of net indebtedness includes:

- €469,000 in lease instalments (against €669,000 at 31/12/2006), most of which are due in connection with the capital lease taken out on PRIMA INDUSTRIE Plant 2 in Collegno, Turin.
- €1,221,000 in subsidized R&D loans and market penetration programs issued by government agencies; these were €1,524,000 at 31/12/2006;
- net balance of €25,000 on interest rate and exchange rate derivatives, (against €7,000 at 31/12/2005).
- €279,000 for other financial assets, consisting almost entirely of a capitalization agreement (€268,000 at 31/12/2006).
- 795 thousand Euro relative to payables due to sellers of the OSAI Group in connection with the earn out determined on the basis of the result reported in the OSAI financial statements of 31/12/2007, to be paid during the course of 2008.

This means a net balance of 1.073 thousand Euro, compared to the net balance of 3.076 thousand Euro at 31/12/2006, with a decrease of 2.003 thousand Euro.

## Financial situation

| <i>Amounts in thousands of Euros</i>      | <b>31/12/2007</b> | <b>31/12/2006</b> |          |
|-------------------------------------------|-------------------|-------------------|----------|
| NET FIXED ASSETS                          | 25,873            | 19,093            |          |
| NET WORKING CAPITAL                       | 32,056            | 25,734            |          |
| <b>TOTAL ASSETS</b>                       | <b>57,929</b>     | <b>44,827</b>     |          |
| SHAREHOLDERS' EQUITY                      | 51,441            | 42,359            |          |
| EMPLOYEE SEVERANCE FUND AND PENSION FUNDS | 7,561             | 5,544             |          |
| NET FINANCIAL POSITION                    | (1,073)           | (3,076)           |          |
| MEDIUM-TERM                               |                   | 15,180            | 12,395   |
| SHORT-TERM                                |                   | (16,253)          | (15,471) |
| <b>TOTAL LIABILITIES</b>                  | <b>57,929</b>     | <b>44,827</b>     |          |

The increase in net working capital of €6,332,000 compared to 31/12/2007 is essentially due to the expansion of the scope of consolidation - which also includes the OSAI group as of 31/12/2007 – as well as the increase in revenues.

Percentage of sales on 31/12/2007 remains essentially stable, decreasing from 18.2% to 17.4% on 31 December 2006 (it should be noted that the revenues of the consolidated OSAI group only apply to the second part of the year).

Operating working capital at 31 December 2007 was €49,398,000, an increase over the same period in 2006 (€39,388,000); this was again due to the change in the scope of consolidation and the growth of revenues.

Revenue turnover days therefore increase from 96 days on 31 December 2006 to 120 days on 31 December 2007.

The average number of days<sup>1</sup> for collection went from 78 at 31 December 2006 to 85 days in 2007 (considering trade receivables net of customer advances, which increased at 31/12/2007 compared to 31/12/2006), and the average payment<sup>2</sup> days increased from 99 days in 2006 to 102 on 31/12/2007 (considering raw and ancillary materials, consumables and goods as well as other operating costs).

One of the most significant variations relative to overall working capital includes the allocation to a product warranty fund for 3,231 thousand Euro (gross of utilizations in the period and more than 132 thousand Euro deriving from the acquisition of the OSAI group); the increase in tax liabilities due to current taxes totaling 2,911 thousand Euro; and the increase of other liabilities relative to personnel for 1,240 thousand Euro and those relative to payables due to social security institutions totaling 731 thousand Euro, owing to the increase in employees and salary dynamics.

<sup>1</sup> The impact of VAT on receivables is disregarded

<sup>2</sup> The impact of VAT on payables is disregarded

## □ RESEARCH

Expenditure on research during the year totaled 10.085 thousand Euro compared to 8.077 thousand Euro at 31/12/2006, and accounted for 5.7% of turnover.

In particular, the parent company PRIMA INDUSTRIE completed its development of a new technological package for SYNCRONO, which enables significantly higher cutting speeds than those previously obtained.

Again, in relation to SYNCRONO, the company proceeded with the development of certain new options that will contribute to increasing the performance level even more; certain of these new options will be presented at the next fair EMO in Hanover (September 2007).

The work on the new DOMINO Evolution also continued (with the new P20L numerical control) whose presentation to the market occurred at the Fabtech fair in Chicago.

The parent company continued its activities relative to the completion and certification of the CV5000 laser on its own products while the new prototype of the new Tower Server warehouse and metal sheet loading/unloading was completed; the latter is produced internally and entirely by PRIMA INDUSTRIE and is based on PRIMA ELECTRONICS control electronics.

PRIMA ELECTRONICS also continued the development of the new series of I/O modules based on the *fieldbus* Canopen whose first prototypes are currently being tested. Their entry into production is forecasted for the start of 2008.

In collaboration with OSAI, the development of a new family of new generation servodrives was initiated; in addition to expanding the range of available power options, these products will include a series of innovative functions. In particular, a functionality named autotuning is being developed and is currently being tested; it will allow for the automatic calculation of optimal control parameters.

PRIMA ELECTRONICS has created a new version of the operator console of the P20L numerical control, equipped with a more potent processor compared to the current one and which will enter into production in the first quarter of 2008.

The development of a wearable device (named "assistance watch") has been initiated and will serve to assist vulnerable individuals. This device will allow SOS calls to be made by means of a radio connection to a base station which is, in turn, connected by a phone line to an assistance center; it will also allow certain health parameters to be monitored remotely.

With regards to OSAI, the latter presented the first product of the new generation of XTEND numerical controls, named XT/210 OS-Wire, in October at the VITRUM fair of Milan. The new product is ready for its Beta testing activities within certain pilot customers and will be subsequently released to the sales network.

In addition, PRIMA ELECTRONICS and OSAI have jointly realized a personalized version of the TOP5 Terminal Operator based on Windows CE for OSAI CNC products and Automation.

The research and development in CONVERGENT LASERS continued to concentrate on preparations for the start of production of the new CV5000 laser source, testing the first units of the pre-series.

In LASERDYNE SYSTEMS the activity included the integration on the micro-drilling systems of contact sensitivity sensors by way of contact probes as a complement to the contact sensors normally used. The applications are aimed at extending the capacity of the LASERDYNE systems to produce shaped holes in the airplane engine components.

The LASERDYNE division also implemented tests on the first sample products of LASERDYNE® 795, a new generation of machines dedicated to aerospace. The new machines—which includes a focusing head with significantly improved performance—was presented at the Open House in Champlin (Minnesota) within company offices in October. During this event, the performance of LASERDYNE® 795 was illustrated to customers, in particular with regards to the implementation of moulded holes within components of aerospace motors.

Certain changes were also implemented with respect to the Nd:YAG laser which is installed on LASERDYNE® micro-drilling machines. Given the elevated number of significant changes made to this laser (previously called P50L), it has been given a new name, CL50K.

#### □ PERSONNEL AND ORGANIZATION

At the end of 2007, Group employees totaled 733. The Group's workforce went up by 34% with respect to the previous year (546 units), an increase which takes into account the additional 135 employees derived from the acquisition of the OSAI Group. The increase would have been 9.5% without this acquisition.

Per capita sales thus decreased from 270 thousand Euro as of 31/12/2007 as against 265 thousand Euros as of 31/12/2006. Only half of these are actually on the payroll (68); these figures include the personnel of OSAI which was acquired half way through the year.

The breakdown by Group company is shown below:

|                                          | 31/12/2007 | 31/12/2006 |
|------------------------------------------|------------|------------|
| Prima Industrie S.p.A. – Italy           | 295        | 276        |
| PRIMA INDUSTRIE European branch offices  | 30         | 28         |
| PRIMA INDUSTRIE UK Ltd. – United Kingdom | 13         | 12         |
| PRIMA INDUSTRIE GmbH - Germany           | 18         | 13         |
| PRIMA SCANDINAVIA AB - Sweden            | 8          | 5          |
| PRIMA INDUSTRIE POLSKA Sp.z.o.o.         | 4          | -          |
| PRIMA INDUSTRIE branch office China      | 1          | 1          |
| Prima Electronics S.p.A. – Italy         | 107        | 104        |
| PRIMA North America, Inc. USA            | 122        | 107        |
| OSAI Group                               | 135        | -          |
| <b>Total</b>                             | <b>733</b> | <b>546</b> |

Breakdown of employees by department:

| Department                | 2007       | 2006       |
|---------------------------|------------|------------|
| Production                | 282        | 240        |
| Quality                   | 9          | 8          |
| Research and development  | 108        | 83         |
| Marketing and sales       | 84         | 51         |
| After sales service       | 169        | 100        |
| Management/Administration | 79         | 62         |
| Employees on leave        | 2          | 2          |
| <b>Total employees</b>    | <b>733</b> | <b>546</b> |



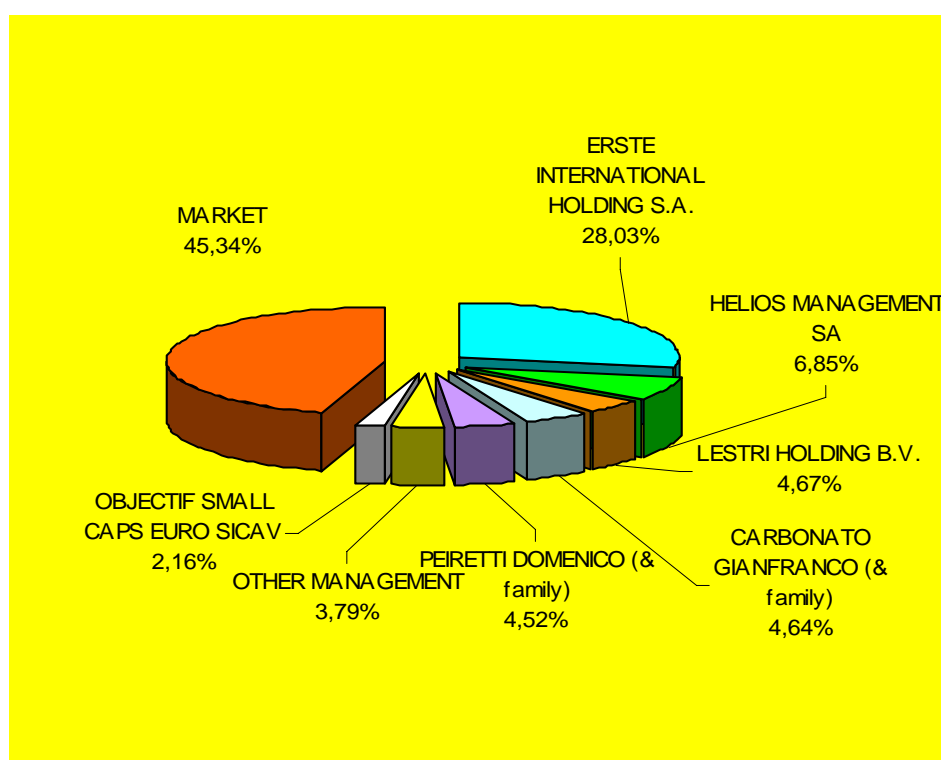
## OWNERSHIP STRUCTURE

PRIMA INDUSTRIE share capital at 31/12/2007 was made up of 4,600,000 common shares with a unit face value of €2.50.

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

As recorded in the Shareholders' Ledger, updated with the distribution of dividends, which took place in May 2007, and integrated with the communications subsequently received, the share structure at 31/12/2007 looks like this:

### Ownership structure



## TREASURY SHARES AND THE SHARE TREND

PRIMA INDUSTRIE shares, which rose from €22.52 per share at 2/1/2007 to €28.68 per share at 31/12/2007, closed the year with an appreciation of 27.4%, considerably outperforming the reference STAR index, which went from 17.053 to 14.254 points (-16.41%).

The minimum value (closing price) of the share during the year was €22.52 per share, with a maximum value of €43.00 per share.

This trend highlights two distinct time phases: the first coincides with the first half of the year when the stock price increased significantly until it reached its peak (+91% compared to the beginning of the year) while second, as of the second half of July, witnessed the share being dragged down by the general fall in global markets.

During the first months of 2008, and in particular towards the end of the month of January—simultaneously with the announcement of the acquisition operation relative to the Finn-Power group—the share price began climbing again and reached circa 30 Euro per share.

The graph shows the above trends.





Volumes went from a daily average of 32,525 shares in 2006 to a daily average of 43,549 shares during 2007.

With regards to treasury shares and as of 31.12.07, PRIMA INDUSTRIE S.p.A. held 3000 ordinary shares (equal to approximately 0.07% of the capital stock) at an average weighted price of 29.2934 Euro per share; these shares were acquired in the execution of the resolution of the Ordinary Stockholders' Meeting of 05/11/2006, which authorized 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 subscribed and paid-up capital) for a duration of 18 months from the date of the resolution.

These 3,000 shares were sold on 28/02/2008, realizing a small capital gain which will be booked in accordance with international accounting principles as an increase in shareholders' equity reserves.

Such authorization (which could not be used because the market exceeded the maximum established for the purchase of the shares) was revoked and replaced by a new resolution of the Meeting of Members taken on 05/14/2007.

This new resolution, which is valid for 18 months, envisages a minimum buying price equal to the par value, and a maximum price of €60.

The maximum number of shares in terms of the resolution was confirmed at 200,000 (equal to 4.35% of the total capital made up of 4,600,000 shares) with a corresponding countervalue of 12,000,000 Euro.

### ***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 the year, the shares in circulation amounted to 4,600,000 shares, whereas the average treasury shares held during the period amounted to 2,958 shares; thus the earnings per share for 2007 amounts to €2.99 per share (compared to €2.98 per share for 2006).

| <b>Earnings per share</b>                    | <b>31 December 2007</b> | <b>31 December 2006</b> |
|----------------------------------------------|-------------------------|-------------------------|
| Earnings due to shareholders (Euro/1000)     | 13,728                  | 13,706                  |
| Weighted average - number of ordinary shares | 4,597,042               | 4,594,139               |
| Basic earnings per share (Euro)              | 2.99                    | 2.98                    |

**(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 share number, represented by the pre-emptive rights. The estimate of the potential share number is determined as an estimate of the number of shares that can be subscribed for, at the exercise price, given the value of the option.

Because at 31.12.07 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 14/5/07 the Stockholders' Meeting resolved to distribute a gross dividend per share on the 2006 profit of 0.65 Euro, to be paid to all the shares in circulation, excluding treasury stock held in portfolio at the cut-off date for the payment of the said dividend. On that date the treasury stock in portfolio amounted to 3,000 shares and thus the dividend distributed amounted to 2,988,050 Euro. The cut off date for the coupon and the payment date were respectively 28/5/2007 and 31/5/2007.

□ **STOCK OPTIONS PLAN**  
(as contemplated by CONSOB recommendation No. 11508 of February 15, 2000)

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

□ **FULFILMENT OF PRIVACY OBLIGATIONS IN COMPLIANCE WITH ATTACHMENT B OF LEGISLATIVE DECREE N°196 OF 30 JUNE 2003**

It is hereby noted that, in accordance with Point 19 of the Technical Regulations relative to minimum security measures - Attachment B of Legislative Decree no. 196/2003 "Data Protection Code", the company drew up the Documento Programmatico sulla Sicurezza (DPS – Planning Document for Security) on 29 March 2007. The assessment phase is underway for 2008, following which the document will be updated by 31 March 2008.

## □ SUBSEQUENT EVENTS

### ACQUISITION OF FINN-POWER Oy

On January 30th, 2008, PRIMA INDUSTRIE S.p.A. resolved in favour of 100% of Finn-Power Oy, a Finnish company with a 25-year history of growth and innovation in the sector of machinery and systems for plate processing, thereby creating a global group within the sector for laser systems and plate processing with pro-forma 2007 revenues of more than 415 million Euro and present in 50 countries with 10 production plants in Italy, Finland, USA and China and more than 1,700 employees across the world. The Finn-Power Group, with a registered office in Kauhava in Finland as well as production facilities in Finland and Italy as well as subsidiaries in Italy, Germany, France, Belgium, Spain, US and Canada, primarily operates in the sector of plate processing machinery (punching presses, punching press/shears cells and laser punching presses, automatic folding cells and related automation systems) and, to a minor degree, within the laser cutting machinery sector. Finn-Power products are positioned within the average to high range and are characterized by elevated versatility and size as well as a high degree of automation.

The reference market for Finn-Power products is very vast and largely coincides with that in which the Prima Group operates: telecommunications, HVAC (Heating, Ventilating, Air-Conditioning), electrical devices, lighting systems, agricultural machines, household appliances and metallic furnishings.

The operation fully responds to the strategic goals of the Prima Industrie Group and its goal to grow in sectors which complement its core business.

The combination of the two companies will allow significant synergies to be attained at a commercial and productive level: 10 million Euro in annual pre-tax income is estimated from the synergy. The acquisition therefore resulted in increases in terms of earnings per share already since last year.

In addition, the spirit of the operation involves leveraging the exceptional qualities of the human and managerial resources which are found within the two groups in order to attain significant effects in terms of synergies and additional growth and value creation.

The operation was closed on February 4th, 2008, with the acquisition of 100% of the shares of Finn-Power Oy on the part of Prima Industrie, of which 91.64% is held by the fund, Private Equity EQT III Limited, and the remaining quota is owned by certain minority shareholders.

The Enterprise Value was equal to 170 million Euro, including the financial debt of Finn-Power Oy on the Closing Date.

On the basis of preliminary 2007 data (Finnish accounting data), the economic results of the Finn-Power Group reported revenues of 240 million Euro, a 15% (208 million Euro in 2006) and an EBITDA of 23.6 million Euro, a 90% growth (12.6 million Euro in 2006). On the basis of these preliminary data (Finnish Gaap), the net financial position as of 31/12/07 was -60.4 million Euro (-66.5 on 31/12/06).

The operation was financed by various credit lines, primarily of medium-to-long term duration, totalling 183.5 million Euro, of which 20 million Euro in working capital facility supplied by a pool of banks organized by Banca IMI (Mandated Lead Arranger), Unicredit Banca di Impresa (Mandated Lead Arranger) and Intesa Sanpaolo (Financing Bank).

Part of the financing—whose value was not less than 25 million Euro—will be replaced within the first 12 months by an increase in shareholders' equity which will be implemented through a share capital increase.

## AGREEMENT WITH THE PARTNERS OF JV SHANGHAI UNITY PRIMA

As previously announced in the last quarter of the year, PRIMA INDUSTRIE has reached—in the month of March 2008--an agreement with the partners of the Chinese joint venture, Shanghai Unity Prima, for the organizational restructuring of the latter.

This agreement provides that, on 30.06.08, PRIMA INDUSTRIE increases its share from 27.5% to 35%, disbursing a total of 9 million Rmb (i.e. circa 821 thousand Euro at the exchange rate of 26/03/08).

The agreement reflects the strategic intention of PRIMA INDUSTRIE to strengthen its presence within the Chinese market by aiming towards greater influence in the JV of Shanghai in addition to strengthening its direct facilities in Beijing for high-end products. It should be noted that the Group—even by means and particularly through this JV—retains a very significant share of the Chinese market (about 40%).

### □ ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

**RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY  
AND THE CONSOLIDATED FINANCIAL STATEMENTS OF 31 DECEMBER 2007  
WITH REGARD TO SHAREHOLDERS' EQUITY AND EARNINGS**

|                                                                                  | Stockholders' equity<br>at 12/31/2006 | Capital<br>increase | Increases/decreases<br>Stockholders' equity | Profit/loss<br>for the fin. year | Stockholders' equity<br>at 09/30/2007 |
|----------------------------------------------------------------------------------|---------------------------------------|---------------------|---------------------------------------------|----------------------------------|---------------------------------------|
| As per Parent Co.'s Fin.Statements                                               | 32.096.622                            |                     | (2.943.042)                                 | 7.517.223                        | 36.670.803                            |
| Parent co. shares held by companies of the group asset method                    | 24.530.646                            |                     | 2.051.106                                   | 8.657.099                        | 35.238.851                            |
| <b>Adjustments to conform with<br/>IAS-IFRS accounting principles:</b>           |                                       |                     |                                             |                                  |                                       |
| - Adjustments on intangible fixed assets &<br>related depreciation               | (731.364)                             |                     | 77.056                                      |                                  | (654.308)                             |
| - Adjustment to the value of MLTA equity investment<br>held by PRIMA ELECTRONICS | 28.370                                |                     | (28.370)                                    |                                  | -                                     |
| <b>Consolidation adjustments:</b>                                                |                                       |                     |                                             |                                  |                                       |
| - Elimination of book value of equity investments                                | (12.973.416)                          |                     | (10.614.707)                                |                                  | (23.588.123)                          |
| - Goodwill on the acquisition of the OSAI Group                                  |                                       |                     | 4.125.231                                   |                                  | 4.125.231                             |
| - reversal of infra-group & JV margins                                           | (2.605.431)                           |                     | 936                                         | (748.170)                        | (3.352.665)                           |
| - reversal of dividends from group companies                                     | -                                     |                     | 2.637.906                                   | (2.637.906)                      | -                                     |
| - Other minor items                                                              | -                                     |                     | 13.630                                      | (13.630)                         | -                                     |
| - Correction JV valuation to Net Equity                                          | 778.112                               |                     | (25.575)                                    | 818.245                          | 1.570.782                             |
| - Net deferred taxes on consolidation adjustments                                | 1.235.536                             |                     | 40.768                                      | 153.840                          | 1.430.144                             |
| - Minority share of equity and result                                            | (60.266)                              |                     | (158.663)                                   | (18.205)                         | (237.134)                             |
| <b>As per consolidated Financial Statements</b>                                  | <b>42.298.809</b>                     |                     | <b>(4.823.724)</b>                          | <b>13.728.496</b>                | <b>51.203.581</b>                     |

#### 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 parent company's sales turnover in 2007 amounted to 111.402 thousand Euro, an 18.9% increase from 2006's 93.675 thousand Euro.

The increase in turnover took place in all the main sectors of activity (2D, 3D, Service and After Sales). The growth in the 2D segment (+27.5%) was particularly evident, thanks to an exceptionally favorable market and to the excellent performance of the PLATINO systems and the growing contribution of the new SYNCRONO.

Highlights of the 2007 consolidated income statement are shown below. All amounts are expressed in thousands of Euros:

|                                              | 31/12/07       | 31/12/06      |
|----------------------------------------------|----------------|---------------|
| <b>SALES AND SERVICE REVENUES</b>            | <b>111,402</b> | <b>93,675</b> |
| CHANGES IN INVENTORY AND OTHER REVENUES      | 4,997          | 1,609         |
| TOTAL VALUE OF PRODUCTION                    | 116,399        | 95,284        |
| TOTAL COST OF PRODUCTION                     | (87,543)       | (71,976)      |
| ADDED VALUE                                  | 28,856         | 23,308        |
| PERSONNEL COSTS                              | (17,930)       | (15,825)      |
| IMPAIRMENT AND WRITEDOWNS                    | -              | -             |
| <b>GROSS OPERATING MARGIN – EBITDA</b>       | <b>10,926</b>  | <b>7,483</b>  |
| DEPRECIATION                                 | (743)          | (654)         |
| <b>OPERATING PROFIT – EBIT</b>               | <b>10,183</b>  | <b>6,829</b>  |
| NET FINANCIAL INCOME (EXPENSE)               | 2,367          | (11)          |
| VALUE ADJUSTMENTS AND EXTRAORDINARY EXPENSES | (346)          | (240)         |
| <b>INCOME BEFORE TAXATION</b>                | <b>12,204</b>  | <b>6,578</b>  |
| INCOME TAX (CURRENT AND DEFERRED)            | (4,687)        | (3,420)       |
| <b>NET PROFIT (LOSS)</b>                     | <b>7,517</b>   | <b>3,158</b>  |

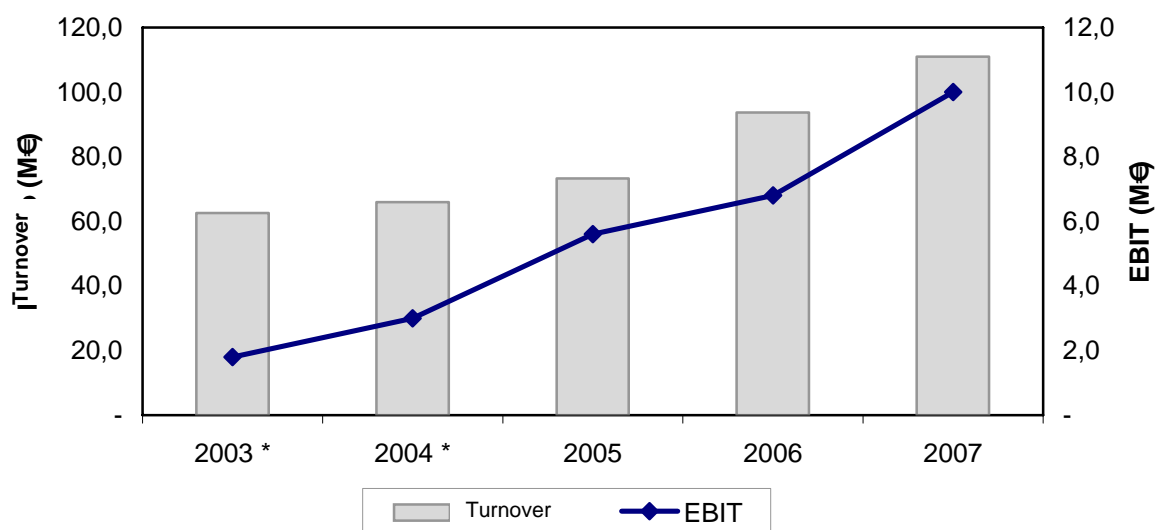
The Company's EBITDA margin stood at 10.926 thousand Euro or 9.8% of turnover, against 7.483 thousand Euro or 8.0% of turnover in the previous year, a 46% increase.

The following items were taken into account in determining EBITDA performance:

- a balance of provisions/utilizations of funds for various risks corresponding to a total of 512 thousand Euro; in particular, €664,000 were allocated to the Allowance for Doubtful Accounts and 2.714 thousand Euro to Contractual Risks and Charges to cover installation and guarantee costs for machines and systems delivered and invoiced in 2007 (2.358 thousand Euro of the fund were utilized during the year);
- €267,000 for inventory obsolescence.
- research and development costs totaling 5.307 thousand Euro (against 4.473 thousand Euro in 2006), all entirely booked during the year.

EBIT amounted to 10.183 thousand Euro or 9.1% of turnover, against 6.829 thousand Euro or 7.3% of turnover in 2006 after deducting depreciation/amortization totaling 743 thousand Euro.

## Turnover and EBIT - PRIMA INDUSTRIE



Pre-tax profits stood at 12.204 thousand Euro up 85.5% on the figure at 2006 (6.578 thousand Euro).

The following factors contributed:

- Net financial expenses and bank commissions totaling 1,229 thousand euros, against 1,415 thousand euros in 2006. This reduction is the net effect derived from the increase in the cost of money and the increase in the net financial position which was more than balanced, however, by the reduction in banking commissions and other financial charges.
- Dividends of €2,868,000 from subsidiaries (€600,000 as of 31/12/2006).
- Exchange rate earnings of €30,000.
- €346,000 writedown of stake in JV SHENYANG - PRIMA LASER MACHINE Co. Ltd., due to lasting value losses.

Net profits after provisions for current and deferred taxes of €4.687m, totaled 7.517 thousand Euro against 3.158 thousand euro in 2005.

Key performance indicators as of 31/12/2007 are shown below in comparison with those relative to 31/12/2006:

| VALUES IN EURO                                                        |      | 31/12/07  | 31/12/06  |
|-----------------------------------------------------------------------|------|-----------|-----------|
| WEIGHTED AVERAGE - NUMBER OF ORDINARY SHARES FOR THE REFERENCE PERIOD |      | 4,597,042 | 4,594,139 |
| FACE VALUE PER SHARE                                                  | EURO | 2.50      | 2.50      |
| NET EARNINGS PER SHARE                                                | EURO | 1.64      | 0.69      |
| NET ASSET VALUE PER SHARE                                             | EURO | 7.98      | 6.99      |

(\* ) includes treasury shares

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

| <i>Amounts in thousands of Euros</i>                  | <b>31/12/2007</b> | <b>31/12/2006</b> |
|-------------------------------------------------------|-------------------|-------------------|
| NET FIXED ASSETS                                      | 26,272            | 20,637            |
| NET WORKING CAPITAL                                   | 17,756            | 17,327            |
| <b>TOTAL ASSETS</b>                                   | <b>44,028</b>     | <b>37,964</b>     |
| SHAREHOLDERS' EQUITY                                  | 36,671            | 32,097            |
| EMPLOYEES' SEVERANCE FUND AND OTHER EMPLOYEE BENEFITS | 3,369             | 3,935             |
| NET FINANCIAL POSITION                                | 3,988             | 1,932             |
| MEDIUM-TERM                                           | 11,913            | 11,686            |
| SHORT-TERM                                            | (7,925)           | (9,754)           |
| <b>TOTAL LIABILITIES</b>                              | <b>44,028</b>     | <b>37,964</b>     |

The most significant element is effective management of Net Working Capital which remains essentially unchanged despite the significant increase in revenues.

Short-term indebtedness consists entirely of medium-term loan amortization installments due during 2008, net of the Company's cash in bank accounts, which totaled €12.189m at 31/12/2007 (against €14.470m at 31/12/2006).

The Company's debt to equity ratio increased from 0.04 on 31/12/2006 to 0.11 on 31/12/2007.



## SALES

Sales for 2007 amounted to 111.402 thousand Euro. The breakdown by product type and geographical area is shown in the tables below in comparison to the previous year (amounts are expressed in thousands of Euros):

### *Sales breakdown by product type*

|                             | 31/12/2007     | %          | 31/12/2006    | %          |
|-----------------------------|----------------|------------|---------------|------------|
| LASER MACHINES              | 95,927         | 86         | 78,870        | 84         |
| CUSTOMER AND OTHER SERVICES | 15,475         | 14         | 14,805        | 16         |
| <b>TOTAL</b>                | <b>111,402</b> | <b>100</b> | <b>93,675</b> | <b>100</b> |

### *Sales breakdown by geographical area*

|               | 31/12/2007     | %          | 31/12/2006    | %          |
|---------------|----------------|------------|---------------|------------|
| ITALY         | 31,295         | 28         | 30,482        | 33         |
| EUROPE        | 59,205         | 53         | 47,599        | 51         |
| USA           | 7,596          | 7          | 5,058         | 5          |
| REST OF WORLD | 13,306         | 12         | 10,536        | 11         |
| <b>Total</b>  | <b>111,402</b> | <b>100</b> | <b>93,675</b> | <b>100</b> |

As can be seen from the breakdown by product type, the considerable increase was primarily produced by the sale of systems rather than the supply of after-sales service, standing at 86% of turnover for the former and 14% for the latter despite the fact the revenues relative to assistance services grew by a total amount of 4.5%.

In terms of the sales breakdown by geographical area, with a situation of substantial stability in percentage terms for countries in the rest of the world, there was a significant increase in the number of sales in Europe, particularly in emerging countries in Eastern Europe (Poland, Czech Republic, Slovakia, Russia, Turkey) as well as in certain Western European markets in which the Group has recently invested in order to improve its direct presence (Germany, Sweden, UK). Significant growth in exports to the North American subsidiary, PRIMA NORTH AMERICA Inc., was also reported.

## SALES ACTIVITY

Orders intake in 2007 from third-party customers and subsidiary companies totaled €114.604m against 111.226 thousand Euro in the previous year, confirming the excellent trend of the Company's reference market.

Consequently, the orders backlog increased considerably to €42.711m at 01.01.08 from €39.893m at 01.01.07.

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

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

**Company shareholding: PRIMA INDUSTRIE S.p.A.**

| <b>SURNAME Name</b>   | <b>Shareholding as of 31/12/2007</b> | <b>Purchased during 2007</b> | <b>Sold during 2007</b> | <b>Shareholding as of 31/12/2006</b> |
|-----------------------|--------------------------------------|------------------------------|-------------------------|--------------------------------------|
| BASSO Ezio Giovanni   | 2,074                                | 0                            | 0                       | 2,074                                |
| CARBONATO Gianfranco  | 174,500                              | 0                            | 0                       | 174,500                              |
| GAGLIARDI Franca (i)  | 38,000                               | 6,000                        | 5,000                   | 39,000                               |
| DEVESCOVI Stefano     | 0                                    | 0                            | 0                       | 0                                    |
| D'ISIDORO Sandro      | 0                                    | 0                            | 0                       | 0                                    |
| FORMICA Riccardo      | 1,000                                | 0                            | 0                       | 1,000                                |
| MANSOUR Michael       | 0                                    | 0                            | 0                       | 0                                    |
| MAURI Mario           | 0                                    | 0                            | 0                       | 0                                    |
| MOSCA Andrea          | 0                                    | 0                            | 0                       | 0                                    |
| PEIRETTI Domenico     | 138,000                              | 0                            | 0                       | 138,000                              |
| MONTICONE Emilia (ii) | 70,000                               | 0                            | 10,310                  | 59,690                               |
| PELLEGRINI Pio        | 0                                    | 0                            | 0                       | 0                                    |
| PETRIGNANI Roberto    | 0                                    | 0                            | 0                       | 0                                    |
| PINCIROLI Marco       | 0                                    | 0                            | 0                       | 0                                    |
| RATTI Massimo         | 2,850                                | 0                            | 1,600                   | 1,250                                |

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

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

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## **TRANSACTIONS WITH RELATED PARTIES**

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*With regards to economic relations with companies that are directly or indirectly controlled, only the most significant parties are hereby noted.*

PRIMA ELECTRONICS S.p.A.

Sales made by PRIMA ELECTRONICS with respect to PRIMA INDUSTRIE amounted to 4.755 thousand euro, up 18.5% from 4.012 thousand euro in the previous year.

All sales were made under normal market conditions and involved:

|                                                                                 | 2007         | 2006         |
|---------------------------------------------------------------------------------|--------------|--------------|
| SUPPLIES OF NUMERICAL CONTROL UNITS,<br>ACCESSORIES, SERVICES AND MISCELLANEOUS | 4,755        | 3,598        |
| DESIGN ACTIVITIES                                                               | -            | 414          |
| <b>Total</b>                                                                    | <b>4,755</b> | <b>4,012</b> |

During the course of the year, PRIMA ELECTRONICS disbursed payable interest totaling 130 thousand Euro to the parent company in connection with the financial of 4,500 thousand Euro granted from the parent company for the acquisition of 100% of OSAI S.p.A. The loan, initially equal to 6,000 thousand Euro, was subject to a partial reimbursement for 1,500 thousand Euro.

Conversely, during the year, PRIMA INDUSTRIE billed a total of €336,000 to PRIMA ELECTRONICS against €106,000 in 2006 for goods and technical and administrative consulting and other services, provided by PRIMA INDUSTRIE to other Group companies on a centralized basis. The amounts thus billed included licenses, maintenance fees and customization costs for the corporate IT system, as well as management and financial expenses incurred by PRIMA INDUSTRIE on behalf of PRIMA ELECTRONICS.

PRIMA INDUSTRIE also allocated €11,000 for invoices to be issued in relation to contributions to the greater costs for in-field intervention and activation of laser machines caused by PRIMA ELECTRONICS products.

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

|                        | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|------------------------|--------------------------------|-----------------------------|
| ACCOUNTS RECEIVABLE    | 728                            | --                          |
| INVOICES PENDING ISSUE | 11                             | --                          |
| FINANCIAL RECEIVABLES  | 4,500                          | --                          |
| CONSOLIDATED TAXATION  | --                             | --                          |
| TRADE ACCOUNTS PAYABLE | --                             | 1,896                       |
| FINANCIAL PAYABLES     | --                             | --                          |
| <b>Total</b>           | <b>5,239</b>                   | <b>1,896</b>                |

*PRIMA North America, Inc.*

In 2007, PRIMA INDUSTRIE billed Prima North America 6,666 thousand Euros for machinery (as against 4,116 thousand Euros in 2006) and 493 thousand Euros for accessories and spare parts (as compared with 958 thousand Euros in 2006) as well as 307 thousand Euro for services. In addition, PRIMA INDUSTRIE allocated 74 thousand Euro for invoices to be issued. The parent company also debited 202 thousand Euro for managerial costs in favor of PRIMA NORTH AMERICA.

In turn, PRIMA North America billed PRIMA INDUSTRIE €11.837m for laser sources and spare parts (against 12.643 thousand euro in 2006), and €64,000 for contractually stipulated services (against €779,000 in 2006). Receivables and payables (in thousands of euros) at the year-end were as follows:

|                               | PRIMA INDUSTRIE RECEIVABLES | PRIMA INDUSTRIE PAYABLES |
|-------------------------------|-----------------------------|--------------------------|
| ACCOUNTS RECEIVABLE           | 2,082                       | --                       |
| INVOICES PENDING ISSUE        | 74                          | --                       |
| TRADE ACCOUNTS PAYABLE        | --                          | 1,094                    |
| INVOICES STILL TO BE RECEIVED | --                          | 1,735                    |
| <b>Total</b>                  | <b>2,156</b>                | <b>2,829</b>             |

*PRIMA INDUSTRIE GmbH*

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

In 2007, PRIMA INDUSTRIE SpA invoiced €12.903m to PRIMA INDUSTRIE GmbH for laser systems (against €5.719m at 31/12/2006), €590,000 for accessories and spare parts (against €528,000 at 31/12/2006), €817,000 for technical assistance (against €482,000 at 31/12/2006), and €64,000 for managerial costs.

Conversely, during the year PRIMA INDUSTRIE GmbH invoiced €63,000 to PRIMA INDUSTRIE S.p.A., for spare parts and services (against €136,000 at 31/12/2006).

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

|                        | PRIMA INDUSTRIE RECEIVABLES | PRIMA INDUSTRIE PAYABLES |
|------------------------|-----------------------------|--------------------------|
| ACCOUNTS RECEIVABLE    | 5,062                       | -                        |
| INVOICES PENDING ISSUE | 50                          | -                        |
| TRADE ACCOUNTS PAYABLE | -                           | 120                      |
| <b>Total</b>           | <b>5,112</b>                | <b>120</b>               |

#### *PRIMA INDUSTRIE UK Ltd.*

During the course of the year, PRIMA INDUSTRIE S.p.A. invoiced the British subsidiary €4.580m for the sale of machinery, assistance and spare parts (2.948 thousand Euro in 2005), €30,000 for the rental of premises, €36,000 for interest on loans and €43,000 for managerial costs.

PRIMA INDUSTRIE UK invoiced PRIMA INDUSTRIE S.p.A. an amount totaling €45,000 for the sale of materials and services (against €101,000 in 2006).

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

|                               | <b>PRIMA INDUSTRIE<br/>RECEIVABLES</b> | <b>PRIMA INDUSTRIE<br/>PAYABLES</b> |
|-------------------------------|----------------------------------------|-------------------------------------|
| ACCOUNTS RECEIVABLE           | 1,425                                  | --                                  |
| FINANCIAL RECEIVABLES         | 626                                    | --                                  |
| TRADE ACCOUNTS PAYABLE        | --                                     | 6                                   |
| INVOICES STILL TO BE RECEIVED | --                                     | 25                                  |
| FINANCIAL PAYABLES            | --                                     | --                                  |
| <b>Total</b>                  | <b>2,051</b>                           | <b>31</b>                           |

#### *PRIMA SCANDINAVIA AB*

In 2007, PRIMA INDUSTRIE S.p.A. invoiced its subsidiary 3.360 thousand euro for the sale of machinery, technical assistance and spare parts (5.653 thousand euro in 2006) and €64,000 for managerial costs.

Furthermore, PRIMA SCANDINAVIA invoiced the parent company for €139,000 for sales and services (€111,000 in 2006).

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

|                               | <b>PRIMA INDUSTRIE<br/>RECEIVABLES</b> | <b>PRIMA INDUSTRIE<br/>PAYABLES</b> |
|-------------------------------|----------------------------------------|-------------------------------------|
| ACCOUNTS RECEIVABLE           | 1,398                                  | -                                   |
| INVOICES PENDING ISSUE        | 25                                     | -                                   |
| TRADE ACCOUNTS PAYABLE        | --                                     | 2                                   |
| INVOICES STILL TO BE RECEIVED | --                                     | 19                                  |
| <b>Total</b>                  | <b>1,423</b>                           | <b>21</b>                           |

#### *PRIMA INDUSTRIE POLSKA SP.Z.O.O.*

In 2007, PRIMA INDUSTRIE S.p.A. billed the subsidiary 71 thousand euros for the sale of machinery, technical assistance and spare parts.

Furthermore, PRIMA POLSKA invoiced the parent company for €28,000 for sales of spare parts and services.

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

|                        | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|------------------------|--------------------------------|-----------------------------|
| ACCOUNTS RECEIVABLE    | 88                             | --                          |
| TRADE ACCOUNTS PAYABLE | --                             | 33                          |
| <b>Total</b>           | <b>88</b>                      | <b>33</b>                   |

#### OSAI S.P.A.

During the course of 2007, no commercial transaction with the parent company PRIMA INDUSTRIE S.p.A. was noted; however, the first-level parent company of PRIMA INDUSTRIE S.p.A. reported revenues of 60 thousand Euro for operations and drives as well as 9 thousand Euro with respect to TechMark Srl, a subsidiary of OSAI S.p.A.

On the other hand, OSAI SpA and TechMark Srl respectively invoiced 6 and 107 thousand Euro to PRIMA ELECTRONICS for electronic cards.

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

|                                        | PRIMA ELECTRONICS<br>RECEIVABLES | PRIMA ELECTRONICS<br>PAYABLES |
|----------------------------------------|----------------------------------|-------------------------------|
| TRADE ACCOUNTS RECEIVABLE:<br>OSAI SPA | 63                               |                               |
| ACCOUNTS RECEIVABLE: TECHMARK          | 10                               |                               |
| TRADE ACCOUNTS PAYABLE: OSAI<br>SPA    |                                  | 16                            |
| TRADE ACCOUNTS PAYABLE:<br>TECHMARK    |                                  | 29                            |
| <b>Total</b>                           | <b>73</b>                        | <b>45</b>                     |

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

PRIMA INDUSTRIE billed the Shenyang Prima joint venture approximately 403 thousand euros for sales of 2D laser cutting machine subsystems. In 2006, sales totaled 1.257 thousand Euro.

At the end of the year, receivables from the joint venture stood at 380 thousand Euro.

#### SHANGHAI UNITY PRIMA LASER MACHINERY CO.. Ltd.

No transactions took place between PRIMA INDUSTRIE S.p.A. and Shanghai Unity Prima Laser Machinery Co. Ltd during the year, although revenues of 14 thousand Euro for the re-debiting of consulting costs were reported.

#### SNK - PRIMA COMPANY Ltd.

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

#### OVL CONVERGENT LASER Ltd.

No transactions took place between PRIMA INDUSTRIE S.p.A. and OVL Convergent Laser Ltd during the year.

## ***SUBSIDIARIES - PRIMA ELECTRONICS***

The company ended 2007 with the best results in its 30-year history, in terms of turnover, profitability and orders. The year 2007 was also particularly active in terms of extraordinary M&A operations which involved the engineering company MLTA S.r.l. and the OSAI Group.

The year closed on 31/12/2007 with revenues of 28,138 thousand Euro, a 39.8% growth with respect to the previous year and with net income equal to 2,311 thousand Euro, a 35.8% increase and 8.2% profit margin.

Revenues—subdivided across the traditional business areas of the company—are as follows:

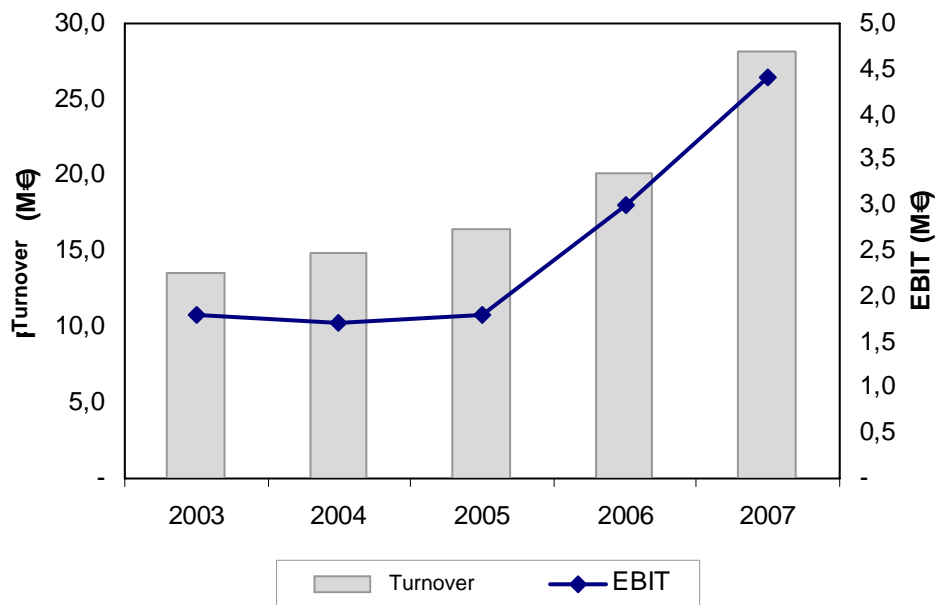
- the range of electronic regulators for air compressors generated revenues of 10.960 thousand Euro, an increase of 18.8%, and still represents (although by a small margin) the largest share of turnover (38.9%), despite falling since the previous year (45.8%);
- the range of Motion Control products, comprising numerical controls and drives for electrical motors, generated revenues of 6.348 thousand Euro, up 21.2%, maintaining a 22.6% share of revenues;
- lastly, the share of turnover relating to Other Electronic Products and including design activities for third parties and revenues from after sales service (repairs and spare parts)—and which now incorporates all the previous business operations of MLTA—increased to 10.830 thousand Euro, up 91% on the previous year and representing 38.5% of overall turnover.

The distribution of revenues by geographical area shows that the share of exports within Europe was 55.9% against 53.1% in the previous year; the share of revenues from outside the EU went up to 8.6% from 5.6%, while domestic turnover represented a share of 35.5%, a decrease with respect to 2006's 41.3%.

At the operational level, the income statement (rated in accordance with Italian accounting principles) showed an EBITDA of €4.807m, or 17.1% of turnover, as well as an EBIT of 4.364 thousand Euro, or 15.5% of turnover, against 3.346 thousand Euro and 2.955 thousand Euro, respectively, in the previous year.

The growth of the two profitability indicators—respectively of 43.7% and 47.7%--with respect to the previous year was slightly higher than the growth in revenues and is largely due to the increase in business volumes and the greater cost effectiveness of production.

## Turnover and EBIT - PRIMA ELECTRONIC



The financial structure of the company as of 31/12/2007 is significantly modified with respect to that of the previous year as a result of extraordinary M&A operations which were completed during the year; this structure is, however, suitable for sustaining the growth which is forecasted for the company over the next few years.

The net financial position at 31/12/07 was negative, totaling 6,731 thousand Euro versus the positive net financial position (NFP) of 1,845 thousand Euro at the end of 2006. On 31/12/2007, the ratio of financial payables to shareholders' equity was circa 0.7 while the NFP/EBITDA ratio was 1.4.

It was a favorable year for sales with orders totaling 27.977 thousand euro, 25.0% higher than in the previous year, which produced 22.390 thousand Euro.

This allowed the year to close with a portfolio of orders equal to 10,133 thousand Euro, essentially in line with that of the previous year. All product lines and all the company's principal historic customers contributed to the good orders result, as well as new customers which show the potential to generate new business opportunities over the coming years.

### □ **SUBSIDIARIES - OSAI**

On 02.07.07, PRIMA ELECTRONICS S.p.A. completed the purchase of 100% of the capital in OSAI S.p.A., an Italian company which is the leader in the sector of numeric control applied particularly to machines destined for the processing of marble, wood and glass - complementary markets to those in which the parent company PRIMA INDUSTRIE S.p.A. operates and which present significant growth potential. OSAI SpA is the parent company of a group which--following the sale of E-Motion GmbH, a non-strategic shareholding, during the course of the year--includes Techmark srl, OSAI UK, OSAI GmbH, OSAI USA.

The advantages of this acquisition for the Group are represented by a greater presence in the electronics sector characterized by reduced volatility, as well as by the Groups strategy to improve leadership in a sector where it is already present and where it possesses high levels of expertise, while also acquiring complementary products and know-how, in addition to a direct presence and an assistance network in the USA, the UK and Germany with the advantage of more efficiently



marketing PRIMA ELECTRONICS products on a global scale. In addition and in light of the good technical, productive and commercial complementarity of OSAI and PRIMA ELECTRONICS, synergies of circa one million Euro in terms of operating margin are expected once operations are underway.

For this purpose, an industrial merger plan has been initiated immediately after the acquisition; this plan will be executed in 2008 in order to attain concrete results during the year and to create the foundation for a potential merger between OSAI and PRIMA ELECTRONICS.

Given that OSAI SpA and the other companies of the OSAI Group have been consolidated as of the second half of the year, the economic trends of OSAI SpA can be synthesized as follows (Italian Gaap data):

| (thousands of Euro)                             | 2007            | 2006            |
|-------------------------------------------------|-----------------|-----------------|
| Total revenues                                  | 15,883          | 15,862          |
| Cost of production                              | <u>(15,442)</u> | <u>(15,372)</u> |
| Difference between value and cost of production | 441             | 490             |
| Financial income and expenses                   | (34)            | (128)           |
| Adjustments to financial assets                 | 0               | (154)           |
| EXTRAORDINARY INCOME AND EXPENSES               | <u>(205)</u>    | <u>0</u>        |
| Income (loss) before tax                        | 202             | 208             |
| Income taxes                                    | <u>(228)</u>    | <u>(525)</u>    |
| Income for the year                             | (26)            | (317)           |

It should be noted that total revenues and the result of the year 2007 include contributions for regional R&D (DOCUP Law 598), European projection (OCEAN) and other contributions for €103,040.

The financial situation of OSAI S.p.A. on 31 December 2007 was as follows:

| (thousands of Euro)  | 31/12/2007 | 31/12/2006 |
|----------------------|------------|------------|
| Assets               | 13,015     | 12,962     |
| Liabilities          | 9,439      | 9,359      |
|                      | -----      | -----      |
| Shareholders' Equity | 3,576      | 3,603      |

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At the level of consolidated pro-forma data (Italian GAAP), the OSAI Group generated consolidated revenues of 18,688 thousand Euro compared to the 17,940 thousand Euro of the previous year (given the same scope of consolidation).

Net profits stood at 532 thousand Euro (92 thousand in 2006).

Finally and for the purposes of optimising financial management of the “electronics division” of the PRIMA Group, OSAI SpA issued a loan to PRIMA ELECTRONICS ON 25/10/2007 with a duration of 18 months minus one day for an amount totalling 1,000 thousand Euro, remunerated at a rate identical to that stipulated with PRIMA INDUSTRIE and with the Bank of Piedmont for the respective loans which finance the acquisition operation.

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

During the course of the year, the very positive trend in PRIMA North America Inc. continued both in terms of sales as well as in terms of profitability.

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

The growing use of the CP laser source on Group machines produced an excellent effect, while a strong demand sustained sales of Laserdyne systems for the aerospace market and systems produced by PRIMA INDUSTRIE on the North American market

All three divisions reported a positive operating profitability; in particular, the number of CP laser sources installed on both machines of the Group as well as on those of the Chinese JV Shanghai Unity PRIMA continued to increase (+36%) while the PRIMA SYSTEMS division increased the number of systems sold on the North American market by 10%; the Laserdyne division, on the other hand, reported significantly lower revenues compared to 2006 although the decrease (which did not affect the positive results) was almost entirely due to the fact that the first quarter of 2006 benefited from the delivery of 9 systems in 2005 which were accepted and consequently invoiced in 2006.

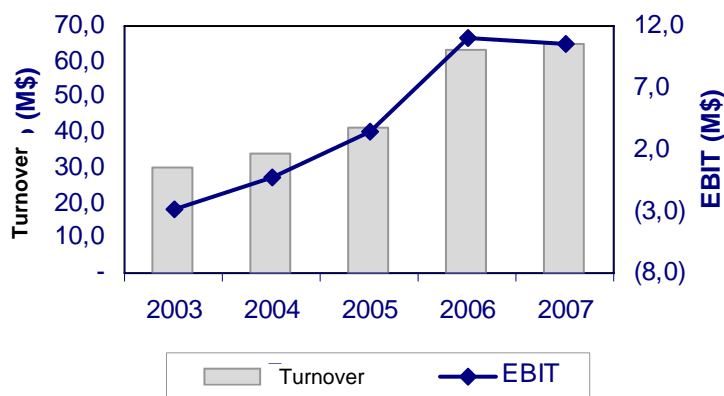
The company’s turnover rose to 64.9 million dollar (against 63.5 million dollar in 2006) with an increase of 2.2%, following in the heels of those achieved in previous years.

In particular:

- the Convergent Lasers division posted a turnover of \$33.9m before consolidation adjustments;
- the Laserdyne Systems division posted a turnover of \$16.7m;
- the PRIMA Systems division posted a turnover of \$21.2m;

The operating result stood at \$10.5m versus \$11.3m posted in 2006.

**Turnover and EBIT - PRIMA NORTH AMERICA**



On the whole, PRIMA North America, which benefited from a balance of tax receivables of around \$3.7m, closed the year with net profits of \$6.7m (against \$11.5m at 31/12/06, the year which strongly benefited from past tax losses).

Investments in research and development, all of which were expensed during the year, totaled \$3.3m against \$2.7m in 2006.

The positive performance of the company was confirmed by the improvement in the Net Financial Position, which stood at \$3.347m at 31/12/2007 despite a dividend of \$3.000m which were distributed to the parent company.

At 31/12/07 the company had a workforce of 122 (in addition to four temporary workers), compared to 107 at the end of 2006 (118 including temporary workers).

#### □ **OTHER SUBSIDIARY COMPANIES**

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

During 2007, PRIMA INDUSTRIE UK Ltd produced a good turnover of £4.784m (against £3.597m in 2006) while profitability dropped slightly with net profits of £33 thousand (against £114 thousand in 2006) due to the depreciation of the pound with respect to the Euro.

At 31/12/2007, the company had a workforce of 13, compared to 12 employees at year-end 2006.

##### *PRIMA SCANDINAVIA AB*

The subsidiary PRIMA SCANDINAVIA at 31.12.07 recorded turnover of 5,039 thousand Euro (7,039 thousand Euro on 31/12/2006) with an EBIT of 398 thousand Euro (not much lower than the 412 thousand Euro on 31/12/2006).

At 31/12/2007, the company had a workforce of eight, compared to five employees at year-end 2006.

### *PRIMA INDUSTRIE GmbH*

2007 turnover reported strong growth, reaching 17.213 thousand euro (9.110 thousand Euro in 2006), with net earnings of €452,000 (€124,000 in 2005). The orders backlog was very positive at year-end .

At 31/13/2007, the company had a workforce of 18 (13 at 31/12/2006).

### □ **UNCONSOLIDATED EQUITY INVESTMENTS**

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

With regards to the JV Shenyang PRIMA Laser Machine Company, a negative performance was reported for the period; it is not necessary to provide more details given that the data are not significant in quantity and, in any case, PRIMA INDUSTRIA SpA, a 50% shareholder of the JV, had already zeroed out the value of the shareholding.

#### *SNK PRIMA COMPANY LTD.*

The company's operations in 2007 were limited to marketing activities. Sustained costs were equal to 20 thousand Euro.

#### *SHANGHAI UNITY PRIMA*

Note should be made of the continued growth of the Chinese JV Shanghai Unity Prima; the JV achieved sales of 187.1 million Rmb during the course of 2007 with an increase of 87% compared to the 100 million Rmb in the same period of 2006.

In addition and as of 31/12/2007, the company shows an interesting return that brought the net profit for the period to 31.8 million Rmb, circa 17% of total revenues and a net growth with respect to the 10.7 million Rmb on 31/12/2006.

With regards to the net financial position on 31/12/07, it was positive and totaled 19,508 thousand Rmb.

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

No commercial transactions with this company took place in 2007.

There were no outstanding accounts payable to or receivable from Prima Industrie at year-end.

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

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

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

On 06/19/2007, EPS S.p.A., a company in which the PRIMA Group held an equity investment of 6.3% with a book value equal to the acquisition price of 750 thousand Euro, increased its capital - which was reserved for institutional investors (funds or private equity) – by 2,000 thousand Euro on the basis of a pre-money valuation of the company of 15,000 thousand Euro.

As a result of this operation the equity investment held by PRIMA ELECTRONICS S.p.A. in the company, which operates in the sector of systems based on hydrogen fuel cell technology, decreased to 5.4% (20,812 shares out of a total of 387,893 shares composing the entire share capital).

The data relative to the year 2007 are currently not available but on the basis of our data we can forecast that the year 2007 will report modest levels of revenues (circa 170 thousand Euro) with significantly high losses (circa 1,800 thousand Euro). This is primarily ascribable to the delay in the development of competitive products, primarily in economic terms, and the lack of an adequate sales structure for business development.

Investors and management are, in any case, confident with regards to the industrial prospects of the company due to both the technical/performance progress which was attained in 2007 in relation to the product as well as the numerous commercial contacts which have been initiated with many Italian and foreign utility and telecommunications companies. Results from the latter are expected in the near future.

During the course of 2007, our company has collaborated in the development of electronic components used in the fuel cell power systems of ELECTRO POWER SYSTEMS as well as in the supply of certain units, realizing revenues from the subsidiary of 331 thousand Euro.

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

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

Given that the financial statements of 2007 are not yet available, revenues are estimated to be circa 5.7 million Euro with a net income equal to 35 thousand Euro.

### *OVL - CONVERGENT*

The Joint Venture composed PRIMA North America and Wuhan Optics Valley Laser Technology has the objective of manufacturing and distributing CO<sub>2</sub> lasers.

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

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

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

2007 revenues were equal to 3,418 thousand Rmb and the result was negative standing at 6,433 Rmb given that the company is still in a start-up phase.

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□ *THE OUTLOOK FOR 2008*

The year began with a significant orders backlog and a continuing positive situation in the markets despite repeated warnings of a recession which has not yet occurred and which, in any case, would not significantly affect the economies of developing countries.

The primary objective for the year involves the successful merger of the PRIMA INDUSTRIE and Finn-Power groups as well as the continued pursuit of forecasted cost/revenue synergies and the generation of cashflow in order to significantly reduce, as of the first year, the debt generated from the acquisition.

In light of the above and on the basis of the net result attained (earnings per share of €2.99 versus €2.98 in 2006, despite significantly higher tax charges), the Board of Directors has decided to submit for approval to the next General Meeting of Shareholders a dividend of €0.65 per share, unvaried with respect to the previous year.

*Shareholders,*

*We hope that you are in favor of continuing the Company's return on risk capital policy, and, taking this opportunity to thank you for the confidence that you have placed in us, we invite you to approve these financial statements, and to allocate the year's earnings of 7,517,223 as follows:*

- *€4,527,223 to the Statutory Reserve;;*
- *€2,990,000 as a dividend, equal to €0.65 per share.*

*On behalf of the Board of Directors*

*The Chairman*



*.Mr. Gianfranco Carbonato*



## **PRIMA INDUSTRIE GROUP**

### **5. CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007 ≈ ACCOUNTING STATEMENTS**

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**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007**  
**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007 & 31 DECEMBER 2006**

| <b>VALUES IN EURO</b>                             | <b>NOTE</b> | <b>31/12/2007</b>  | <b>31/12/2006</b>  |
|---------------------------------------------------|-------------|--------------------|--------------------|
| Tangible fixed assets                             | 9.1         | 10.165.878         | 6.427.108          |
| Intangible fixed assets                           | 9.2         | 6.713.046          | 2.511.075          |
| Stakes valued using the equity method             | 9.3         | 2.234.917          | 1.787.906          |
| Other Stakes                                      | 9.4         | 801.885            | 801.885            |
| Other financial assets                            | 9.5         | 1.133.223          | 267.999            |
| Tax assets for prepaid taxes                      | 9.6         | 5.073.208          | 7.525.805          |
| Other receivables                                 | 9.7         | 30.126             | 38.791             |
| Derivative financial instruments                  | 9.12        | 25.902             | -                  |
| <b>TOTAL NON-CURRENT ASSETS</b>                   |             | <b>26.178.185</b>  | <b>19.360.569</b>  |
| Stock                                             | 9.8         | 41.967.051         | 33.870.201         |
| Accounts receivable                               | 9.9         | 51.703.785         | 38.960.582         |
| Other receivables                                 | 9.10        | 2.564.642          | 2.802.967          |
| Other tax assets                                  | 9.11        | 5.373.666          | 1.643.701          |
| Derivative financial instruments                  | 9.12        | -                  | -                  |
| Trading securities valued at fair value           |             | -                  | -                  |
| Cash and cash equivalents                         | 9.13        | 21.551.369         | 20.702.707         |
| <b>TOTAL CURRENT ASSETS</b>                       |             | <b>123.160.513</b> | <b>97.980.158</b>  |
| <b>TOTAL ASSETS</b>                               |             | <b>149.338.698</b> | <b>117.340.727</b> |
| Share capital                                     | 9.14        | 11.500.000         | 11.500.000         |
| Treasury shares                                   | 9.14        | (87.880)           | (109.034)          |
| Treasury shares owned by subsidiaries             | 9.14        | -                  | -                  |
| Legal reserve                                     | 9.14        | 2.300.000          | 2.300.000          |
| Other reserves                                    | 9.14        | 17.018.984         | 16.849.034         |
| Conversion reserve                                | 9.14        | (2.559.891)        | (639.537)          |
| Earnings (losses) carried forward                 | 9.14        | 9.303.872          | (1.307.575)        |
| Earnings (losses) for current period              | 9.14        | 13.728.496         | 13.705.921         |
| Total Group shareholders' equity                  | 9.14        | <b>51.203.581</b>  | <b>42.298.809</b>  |
| Minority interests                                | 9.14        | 237.134            | 60.266             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |             | <b>51.440.715</b>  | <b>42.359.075</b>  |
| Loans                                             | 9.15        | 15.205.862         | 12.657.033         |
| Employee benefits                                 | 9.16        | 7.561.363          | 5.544.236          |
| Deferred tax liabilities                          | 9.17        | 1.905.744          | 2.384.507          |
| Provisions for liabilities and charges            | 9.18        | 44.235             | 33.500             |
| Derivative financial instruments                  | 9.12        | -                  | 6.071              |
| <b>TOTAL NON-CURRENT LIABILITIES</b>              |             | <b>24.717.204</b>  | <b>20.625.347</b>  |
| Trade accounts payable                            | 9.19        | 33.727.779         | 26.054.651         |
| Advance payments                                  | 9.19        | 10.545.432         | 7.387.989          |
| Other                                             | 9.19        | 9.883.075          | 5.905.438          |
| Amounts due to banks and in respect of loans      | 9.15        | 5.577.448          | 5.231.281          |
| Deferred tax liabilities for current taxes        | 9.20        | 7.976.815          | 5.066.445          |
| Provisions for risks and charges                  | 9.18        | 5.470.230          | 4.709.897          |
| Derivative financial instruments                  | 9.12        | -                  | 604                |
| <b>TOTAL CURRENT LIABILITIES</b>                  |             | <b>73.180.779</b>  | <b>54.356.305</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |             | <b>149.338.698</b> | <b>117.340.727</b> |



**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007**  
**CONSOLIDATED INCOME STATEMENT AT 31 DECEMBER 2007 & 31 DECEMBER 2006**

| <b>VALUES IN EURO</b>                                         | <b>NOTE</b> | <b>31/12/2007</b> | <b>31/12/2006</b> |
|---------------------------------------------------------------|-------------|-------------------|-------------------|
| Net revenues from sales and services                          |             | 176.391.205       | 147.569.053       |
| Other operating income                                        | 9.21        | 2.560.047         | 1.644.672         |
| Changes in inventories of semi-finished and finished products |             | 3.856.509         | (3.480.276)       |
| Increases for internal work                                   | 9.22        | 239.052           | 138.510           |
| Consumption of raw materials, supplies and merchandise        |             | (79.461.918)      | (64.817.871)      |
| Personnel costs                                               | 9.23        | (37.196.704)      | (30.075.984)      |
| Depreciation                                                  | 9.24        | (1.524.142)       | (1.330.386)       |
| Impairment and Writedowns                                     |             | -                 | -                 |
| Other operating costs                                         | 9.25        | (41.279.721)      | (31.181.168)      |
| <b>EBIT</b>                                                   |             | <b>23.584.328</b> | <b>18.466.550</b> |
| Financial income                                              | 9.26        | 720.970           | 667.089           |
| Financial expenses                                            | 9.26        | (1.518.119)       | (1.580.007)       |
| Net result of transactions in foreign currencies              | 9.26        | (358.755)         | 12.628            |
| Net earnings from associated companies and joint ventures     | 9.27        | 472.586           | 10.384            |
| <b>EARNINGS BEFORE TAX</b>                                    |             | <b>22.901.010</b> | <b>17.576.644</b> |
| Current tax liabilities and deferred taxes                    | 9.28        | (9.154.309)       | (3.856.779)       |
| <b>NET PROFIT</b>                                             |             | <b>13.746.701</b> | <b>13.719.865</b> |
| <b>NET PROFIT</b>                                             |             | <b>13.746.701</b> | <b>13.719.865</b> |
| - attributable to shareholders of the parent company          |             | 13.728.496        | 13.705.921        |
| - attributable to minority shareholders                       |             | 18.205            | 13.944            |
| <b>EARNINGS PER SHARE (in Euro)</b>                           |             | <b>2,99</b>       | <b>2,98</b>       |

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007**

**CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY AT 31 DECEMBER 2006 AND 31 DECEMBER 2007**

from January 1st, 2006 to December 31, 2006

| VALUES IN EURO                        | 01/01/06          | Variation of consolidation area | Purchase/Sale of treasury stock | Gains on disposal of treasury stock | Losses on disposal of treasury stock | Allocation of Previous Financial Year's income | Dividends Distribution | Profit of the period | Other    | Conversion Reserve | 31/12/06          |
|---------------------------------------|-------------------|---------------------------------|---------------------------------|-------------------------------------|--------------------------------------|------------------------------------------------|------------------------|----------------------|----------|--------------------|-------------------|
| Share capital                         | 11.500.000        |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 11.500.000        |
| Treasury shares                       | (92.872)          |                                 | (16.162)                        |                                     |                                      |                                                |                        |                      |          |                    | (109.034)         |
| Treasury shares owned by subsidiaries | -                 |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 0                 |
| Share premium reserve                 | 15.664.893        |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 15.664.893        |
| Legal reserve                         | 770.910           |                                 |                                 |                                     |                                      | 1.529.090                                      |                        |                      |          |                    | 2.300.000         |
| Other reserves                        | 220.624           |                                 |                                 |                                     |                                      | 963.517                                        |                        |                      |          |                    | 1.184.141         |
| Conversion reserve                    | 329.937           |                                 |                                 |                                     |                                      |                                                |                        |                      |          | (969.474)          | (639.537)         |
| Earnings (losses) carried forward     | (2.661.910)       | (28.370)                        |                                 | 71.273                              | (16.339)                             | 1.327.771                                      |                        |                      |          |                    | (1.307.575)       |
| Income for the year                   | 5.107.631         |                                 |                                 |                                     |                                      | (3.820.378)                                    | (1.287.253)            | 13.705.921           |          |                    | 13.705.921        |
| <b>Net Equity</b>                     | <b>30.839.213</b> | <b>(28.370)</b>                 | <b>(16.162)</b>                 | <b>71.273</b>                       | <b>(16.339)</b>                      | <b>-</b>                                       | <b>(1.287.253)</b>     | <b>13.705.921</b>    |          | <b>(969.474)</b>   | <b>42.298.809</b> |
| <b>Minorities' interest</b>           | <b>-</b>          | <b>-</b>                        | <b>-</b>                        | <b>-</b>                            | <b>-</b>                             | <b>-</b>                                       | <b>-</b>               | <b>-</b>             | <b>-</b> | <b>-</b>           | <b>60.266</b>     |
| <b>Total Net Equity</b>               | <b>30.839.213</b> | <b>(28.370)</b>                 | <b>(16.162)</b>                 | <b>71.273</b>                       | <b>(16.339)</b>                      | <b>-</b>                                       | <b>(1.287.253)</b>     | <b>13.705.921</b>    | <b>-</b> | <b>(969.474)</b>   | <b>42.359.075</b> |

from January 1st , 2007 to December 31, 2007

| VALUES IN EURO                        | 01/01/07          | Variation of consolidation area | Purchase/Sale of treasury stock | Gains on disposal of treasury stock | Losses on disposal of treasury stock | Allocation of Previous Financial Year's income | Dividends Distribution | Profit of the period | Other    | Conversion Reserve | 31/12/07          |
|---------------------------------------|-------------------|---------------------------------|---------------------------------|-------------------------------------|--------------------------------------|------------------------------------------------|------------------------|----------------------|----------|--------------------|-------------------|
| Share capital                         | 11.500.000        |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 11.500.000        |
| Treasury shares                       | (109.034)         |                                 | 21.154                          |                                     |                                      |                                                |                        |                      |          |                    | (87.880)          |
| Treasury shares owned by subsidiaries | -                 |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | -                 |
| Share premium reserve                 | 15.664.893        |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 15.664.893        |
| Legal reserve                         | 2.300.000         |                                 |                                 |                                     |                                      |                                                |                        |                      |          |                    | 2.300.000         |
| Other reserves                        | 1.184.141         |                                 |                                 |                                     |                                      | 169.950                                        |                        |                      |          |                    | 1.354.091         |
| Conversion reserve                    | (639.537)         |                                 |                                 |                                     |                                      |                                                |                        |                      |          | (1.920.354)        | (2.559.891)       |
| Earnings (losses) carried forward     | (1.307.575)       | 26.042                          |                                 | 38.630                              | (1.146)                              | 10.547.921                                     |                        |                      |          | -                  | 9.303.872         |
| Income for the year                   | 13.705.921        |                                 |                                 |                                     |                                      | (10.717.871)                                   | (2.988.050)            | 13.728.496           |          |                    | 13.728.496        |
| <b>Net Equity</b>                     | <b>42.298.809</b> | <b>26.042</b>                   | <b>21.154</b>                   | <b>38.630</b>                       | <b>(1.146)</b>                       | <b>-</b>                                       | <b>(2.988.050)</b>     | <b>13.728.496</b>    | <b>-</b> | <b>(1.920.354)</b> | <b>51.203.581</b> |
| <b>Minorities' interest</b>           | <b>60.266</b>     | <b>176.868</b>                  | <b>-</b>                        | <b>-</b>                            | <b>-</b>                             | <b>-</b>                                       | <b>-</b>               | <b>-</b>             | <b>-</b> | <b>-</b>           | <b>237.134</b>    |
| <b>Total Net Equity</b>               | <b>42.359.075</b> | <b>202.910</b>                  | <b>21.154</b>                   | <b>38.630</b>                       | <b>(1.146)</b>                       | <b>-</b>                                       | <b>(2.988.050)</b>     | <b>13.728.496</b>    | <b>-</b> | <b>(1.920.354)</b> | <b>51.440.715</b> |

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007****CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 2007 AND DECEMBER 31, 2006**

| <b>THOUSAND EURO</b>                                        | <b>31/12/2007</b>  | <b>31/12/2006</b>  |
|-------------------------------------------------------------|--------------------|--------------------|
| Earnings before tax                                         | 22.901.010         | 17.576.644         |
| Adjustments for non-monetary elements                       | 2.255.063          | 3.295.984          |
| Amortization during period                                  | 1.524.142          | 1.330.386          |
| Allocation to Employees' Severance Fund                     | 47.603             | 1.075.692          |
| Losses (profit) on foreign currency transactions            | 358.755            | (12.628)           |
| Share of profit/losses of an associate                      | (472.586)          | (10.384)           |
| Financial expenses                                          | 1.518.119          | 1.580.007          |
| Financial (income)                                          | (720.970)          | (667.089)          |
|                                                             | 25.156.073         | 20.872.628         |
| (Increase) /Reduction in trade and other receivables        | (5.934.994)        | 1.103.099          |
| (Increase) /Reduction in stock                              | (4.483.238)        | 2.825.901          |
| Increase / (Reduction) in trade payables                    | 5.368.163          | (8.469.238)        |
| Increase / (Reduction) in other payables                    | (1.307.352)        | 2.366.271          |
| Cash flow from typical activity                             | 18.798.652         | 18.698.661         |
| Interest payments                                           | (1.518.119)        | (1.580.007)        |
| Taxes                                                       | (3.646.040)        | (1.725.654)        |
| <b>Cash flow from operating activities</b>                  | <b>13.634.493</b>  | <b>15.393.000</b>  |
| Cash flow from investment activities                        |                    |                    |
| Acquisition OSAI Group                                      | (10.415.685)       | -                  |
| Cash at the time of OSAI acquisition                        | 2.006.540          | -                  |
| MLTA Acquisition                                            | -                  | (38.622)           |
| Purchase of tangible fixed assets                           | (1.716.027)        | (1.899.046)        |
| Purchase of intangible fixed assets                         | (292.819)          | 58.727             |
| Sale /(Purchase) of financial assets (at cost)              | (865.223)          | (745.935)          |
| Sale /(Purchase) investments in associates                  | 25.575             | 31.557             |
| Sale/ (Purchase) of treasury stock at fair value            | 664.725            | -                  |
| Receipts from sales of fixed assets                         | 49.224             | 167.063            |
| Interest encashed                                           | 720.970            | 667.089            |
| <b>Cash flow derived from investing activity</b>            | <b>(9.822.720)</b> | <b>(1.759.167)</b> |
| <i>Cash flow derived from financing activity</i>            |                    |                    |
| Variation in the conversion reserve                         | (1.920.354)        | (969.474)          |
| (Purchase)/sale of treasury stock                           | 58.638             | 38.772             |
| Variation area for OSAI minorities                          | (239.525)          | -                  |
| Variation of other reserves                                 | 184.705            | 17.952             |
| Changes in balance- derivative instruments (FV)             | (32.577)           | (4.700)            |
| Loan agreements                                             | 7.795.000          | 13.674.366         |
| Repayments of loans and financing                           | (5.237.269)        | (15.120.949)       |
| (Repayments)/ Raising of financial leases                   | (199.663)          | (262.861)          |
| (Repayments)/ Raising of Sabatini transactions              | (384.016)          | (512.362)          |
| Dividends paid                                              | (2.988.050)        | (1.287.253)        |
| <b>Net Cash flow derived from financing activity</b>        | <b>(2.963.111)</b> | <b>(4.426.509)</b> |
| <b>Increase (decrease) in the cash and cash equivalents</b> | <b>848.662</b>     | <b>9.207.324</b>   |
| <b>Cash and cash equivalents at start of year</b>           | <b>20.702.707</b>  | <b>11.495.383</b>  |
| <b>Cash and cash equivalents at year end</b>                | <b>21.551.369</b>  | <b>20.702.707</b>  |

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007**  
**CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH CONSOB RESOLUTION**  
**NO. 15519 DATED 27 JULY 2006**

| VALUES IN EURO                                    | NOTE | 31/12/2007         | related parties<br>(9.30) | 31/12/2006         | related parties<br>(9.30) |
|---------------------------------------------------|------|--------------------|---------------------------|--------------------|---------------------------|
| Tangible fixed assets                             | 9.1  | 10.165.878         |                           | 6.427.108          |                           |
| Intangible fixed assets                           | 9.2  | 6.713.046          |                           | 2.511.075          |                           |
| Stakes valued using the equity method             | 9.3  | 2.234.917          | 2.234.917                 | 1.787.906          | 1.787.906                 |
| Other Stakes                                      | 9.4  | 801.885            |                           | 801.885            |                           |
| Other financial assets                            | 9.5  | 1.133.223          |                           | 267.999            |                           |
| Tax assets for prepaid taxes                      | 9.6  | 5.073.208          |                           | 7.525.805          |                           |
| Other receivables                                 | 9.7  | 30.126             |                           | 38.791             |                           |
| Derivative financial instruments                  | 9.12 | 25.902             |                           | -                  |                           |
| <b>TOTAL NON-CURRENT ASSETS</b>                   |      | <b>26.178.185</b>  |                           | <b>19.360.569</b>  |                           |
| Stock                                             | 9.8  | 41.967.051         |                           | 33.870.201         |                           |
| Accounts receivable                               | 9.9  | 51.703.785         | 379.963                   | 38.960.582         | 1.632.587                 |
| Other receivables                                 | 9.10 | 2.564.642          |                           | 2.802.967          |                           |
| Other tax assets                                  | 9.11 | 5.373.666          |                           | 1.643.701          |                           |
| Derivative financial instruments                  | 9.12 | -                  |                           | -                  |                           |
| Trading securities valued at fair value           |      | -                  |                           | -                  |                           |
| Cash and cash equivalents                         | 9.13 | 21.551.369         |                           | 20.702.707         |                           |
| <b>TOTAL CURRENT ASSETS</b>                       |      | <b>123.160.513</b> |                           | <b>97.980.158</b>  |                           |
| <b>TOTAL ASSETS</b>                               |      | <b>149.338.698</b> |                           | <b>117.340.727</b> |                           |
| Share capital                                     | 9.14 | 11.500.000         |                           | 11.500.000         |                           |
| Treasury shares                                   | 9.14 | (87.880)           |                           | (109.034)          |                           |
| Treasury shares owned by subsidiaries             | 9.14 | -                  |                           | -                  |                           |
| Legal reserve                                     | 9.14 | 2.300.000          |                           | 2.300.000          |                           |
| Other reserves                                    | 9.14 | 17.018.984         |                           | 16.849.034         |                           |
| Conversion reserve                                | 9.14 | (2.559.891)        |                           | (639.537)          |                           |
| Earnings (losses) carried forward                 | 9.14 | 9.303.872          |                           | (1.307.575)        |                           |
| Earnings (losses) for current period              | 9.14 | 13.728.496         |                           | 13.705.921         |                           |
| Total Group shareholders' equity                  | 9.14 | 51.203.581         |                           | 42.298.809         |                           |
| Minority interests                                | 9.14 | 237.134            |                           | 60.266             |                           |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |      | <b>51.440.715</b>  |                           | <b>42.359.075</b>  |                           |
| Loans                                             | 9.15 | 15.205.862         |                           | 12.657.033         |                           |
| Employee benefits                                 | 9.16 | 7.561.363          |                           | 5.544.236          |                           |
| Deferred tax liabilities                          | 9.17 | 1.905.744          |                           | 2.384.507          |                           |
| Provisions for liabilities and charges            | 9.18 | 44.235             |                           | 33.500             |                           |
| Derivative financial instruments                  | 9.12 | -                  |                           | 6.071              |                           |
| <b>TOTAL NON-CURRENT LIABILITIES</b>              |      | <b>24.717.204</b>  |                           | <b>20.625.347</b>  |                           |
| Trade accounts payable                            | 9.19 | 33.727.779         |                           | 26.054.651         |                           |
| Advance payments                                  | 9.19 | 10.545.432         |                           | 7.387.989          |                           |
| Other                                             | 9.19 | 9.883.075          |                           | 5.905.438          | 165.937                   |
| Amounts due to banks and in respect of loans      | 9.15 | 5.577.448          |                           | 5.231.281          |                           |
| Deferred tax liabilities for current taxes        | 9.20 | 7.976.815          |                           | 5.066.445          |                           |
| Provisions for risks and charges                  | 9.18 | 5.470.230          |                           | 4.709.897          |                           |
| Derivative financial instruments                  | 9.12 | -                  |                           | 604                |                           |
| <b>TOTAL CURRENT LIABILITIES</b>                  |      | <b>73.180.779</b>  |                           | <b>54.356.305</b>  |                           |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |      | <b>149.338.698</b> |                           | <b>117.340.727</b> |                           |

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31<sup>ST</sup>, 2007**  
**INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519**  
**DATED 27 JULY 2006**

| VALUES IN EURO                                                | NOTE | 31/12/2007        | related parties<br>(9.30) | 31/12/2006        | related parties<br>(9.30) |
|---------------------------------------------------------------|------|-------------------|---------------------------|-------------------|---------------------------|
| Net revenues from sales and services                          | 9.21 | 176.391.205       | 1.149.044                 | 147.569.053       | 1.814.632                 |
| Other operating income                                        | 9.21 | 2.560.047         |                           | 1.644.672         |                           |
| Changes in inventories of semi-finished and finished products |      | 3.856.509         |                           | (3.480.276)       |                           |
| Increases for internal work                                   | 9.22 | 239.052           |                           | 138.510           |                           |
| Consumption of raw materials, supplies and merchandise        |      | (79.461.918)      |                           | (64.817.871)      |                           |
| Personnel costs                                               | 9.23 | (37.196.704)      | 766.136                   | (30.075.984)      | 1.208.486                 |
| Depreciation                                                  | 9.24 | (1.524.142)       |                           | (1.330.386)       |                           |
| Impairment and Writedowns                                     |      | -                 |                           |                   |                           |
| Other operating costs                                         | 9.25 | (41.279.721)      | 977.436                   | (31.181.168)      | 795.681                   |
| <b>EBIT</b>                                                   |      | <b>23.584.328</b> |                           | <b>18.466.550</b> |                           |
| Financial income                                              | 9.26 | 720.970           |                           | 667.089           |                           |
| Financial expenses                                            | 9.26 | (1.518.119)       |                           | (1.580.007)       |                           |
| Net result of transactions in foreign currencies              | 9.26 | (358.755)         |                           | 12.628            |                           |
| Net earnings from associated companies and joint ventures     | 9.27 | 472.586           | 472.586                   | 10.384            | 10.384                    |
| <b>EARNINGS BEFORE TAX</b>                                    |      | <b>22.901.010</b> |                           | <b>17.576.644</b> |                           |
| Current tax liabilities and deferred taxes                    | 9.28 | (9.154.309)       |                           | (3.856.779)       |                           |
| <b>NET PROFIT</b>                                             |      | <b>13.746.701</b> |                           | <b>13.719.865</b> |                           |
| <b>NET PROFIT</b>                                             |      | <b>13.746.701</b> |                           | <b>13.719.865</b> |                           |
| - attributable to shareholders of the parent company          |      | 13.728.496        |                           | 13.705.921        |                           |
| - attributable to minority shareholders                       |      | 18.205            |                           | 13.944            |                           |
| <b>EARNINGS PER SHARE (in Euro)</b>                           |      | <b>2,99</b>       |                           | <b>2,98</b>       |                           |

## 6. DESCRIPTION OF ACCOUNTING PRINCIPLES

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### □ GROUP ACTIVITIES

The corporate scope of PRIMA INDUSTRIE S.p.A. involves the planning, manufacturing and marketing of devices, instruments, machinery as well as of mechanical, electrical and electronic systems and of the relative programming (software) which is utilized for industrial automation or in other sectors where the company's technologies may be usefully employed.

The company may also supply industrial services of technical, managerial and organizational nature within the fields of production of instrumental goods and industrial automation.

Primary activities are focused on the sector for laser cutting and welding machinery.

The corporate scope of PRIMA ELECTRONICS S.p.A. involves the planning, manufacturing and marketing of devices and systems as well as of mechanical, electrical and electronic systems and of the relative programming (software).

The company may also acquire and grant manufacturing licences.

PRIMA NORTH AMERICA Inc. (operating under US law) is structured into three divisions:

- CONVERGENT LASERS DIVISION: which designs, manufactures, sells and renders assistance in respect of industrial lasers throughout the world.
- LASERDYNE SYSTEMS DIVISION: which designs, manufactures, sells and renders assistance in respect of Laserdyne systems throughout the world. These systems are specialized in the use of lasers for the production of components for aeronautic motors and turbines for the generation of energy.
- PRIMA 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, is primarily engaged in providing after-sales service. The company has resumed operations as of 1/07/2005 following the acquisition of the company branch of Matra relative to the distribution of PRIMA machines in the German market.

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

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

PRIMA INDUSTRIE POLSKA Sp.z.o.o. (operating under Polish law) was founded in the year 2007 and implements technical assistance services for the products of PRIMA INDUSTRIE within eastern European markets.

OSAI S.p.A. (acquired by PRIMA ELECTRONICS S.p.A. in July 2007), plans, produces and markets—either directly or through its subsidiaries—numerical controls which are applied, in particular, to machines which are designed for processing marble, wood and glass.

This company is the parent company of the group composed of the following firms:

- ❖ Techmark S.p.A., 100% shareholding
- ❖ OSAI USA Llc., 100% shareholding

- ❖ OSAI UK Ltd., 82% shareholding
- ❖ OSAI GmbH, 100% shareholding

PRIMA INDUSTRIE (Beijing) Ltd. Co. Ltd. (operating under Chinese law) will be operational as of the second quarter of 2008 and implements technical assistance services for the products of PRIMA INDUSTRIE within the Chinese market.

## □ VALUATION CRITERIA

The consolidated financial statements of the PRIMA INDUSTRIE Group refer to the year closing on December 31<sup>st</sup>, 2007, and have been drafted in compliance with the *International Financial Reporting Standards* (IFRS).

The valuation criteria were applied with continuity in relation to the data at January 1<sup>st</sup>, 2004 including those applicable to the classification and measurement of the financial instruments.

The information requested by IFRS 1—relative to the first-time adoption of the IFRS and the effects resulting from the transition to the IFRS—was reported in the relative Chapter of the Consolidated Financial Statements of December 31<sup>st</sup>, 2005; please refer to this chapter for more information.

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.

Drafting of the consolidated financial statements in accordance with the IFRS inevitably requires the use of accounting estimates as well as evaluations on the part of the company's Directors. The areas of the financial statements which require the application of more complex estimates and a greater use of evaluations on the part of the company's Directors are specified below.

## □ ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS APPLIED IN 2007

In the month of August 2005, IASB issued a new accounting principle, IFRS 7 – “Financial Instruments: Supplementary Information” in addition to a complementary amendment to IAS 1 “Presentation of the financial statements: supplementary information relative to share capital”, effective as of January 1<sup>st</sup>, 2007.

The IFRS 7 principle requires supplementary information relative to financial instruments and was applied by the Group as of January 1<sup>st</sup>, 2007. The IAS amendment, on the other hand, introduces requirements relative to information which must be provided on the share capital of the company and does not produce any effect on the valuation or classification of these items. This amendment was applied as of January 1<sup>st</sup>, 2007.

### **Non-significant interpretations applicable as of January 1<sup>st</sup>, 2007**

The following interpretations, applicable as of January 1<sup>st</sup>, 2007, regulate cases and case histories that are not present within the company:

- ❖ IFRIC 7 – Application of the re-determination method, in accordance with IAS 29 – Accounting information relative to hyperinflation economies;
- ❖ IFRIC 8 – Realm of application of IFRS 2;
- ❖ IFRIC 9 – Subsequent valuation of implicit derivatives.

## Accounting principles, amendments and interpretations that are not yet applicable and not adopted in advance by the company

On March 29<sup>th</sup>, 2007, IASB issued a revised version of IAS 23 – Financial Charges which will be applicable as of January 1<sup>st</sup>, 2009. In this new version of the principle, the option through which companies could immediately book—in the income statement—financial charges sustained for activities for which a certain period of time normally elapses in order to allow the asset to be ready for use or sale. The principle will be applicable in the future in relation to financial charges relative to capitalized goods, effective as of January 1<sup>st</sup>, 2009. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle.

On July 5<sup>th</sup>, 2007, IFRIC issued the interpretation IFRIC 14 on IAS 19 – Activities for plans with definite benefits and minimum hedging criteria, applicable as of January 1<sup>st</sup>, 2008.

The interpretation provides general guidelines on how to determine the limit amount established by IAS 19 for the recognition of activities serving the plans and provides an explanation relative to the accounting effects caused by the presence of a minimum plan coverage clause. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle.

On September 6<sup>th</sup>, 2007, IASB issued a revised version of IAS 1 – Presentation of the financial statements which will be applicable as of January 1<sup>st</sup>, 2009. The new version of the principle requires that the company reports—within a statement of changes in shareholders' equity—all changes generated by transactions with shareholders. All transactions implemented with third parties (“comprehensive income”) must, on the other hand, be reported within a single statement on comprehensive income or within two separate statements (income statement and statement of comprehensive income). In any case, the changes generated by transactions with third parties may be recorded within the statement of changes in shareholders' equity. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle.

Finally, it should be noted that the following interpretations which regulate cases and case histories that are not present for the company have been issued:

- ❖ IFRIC 12 – Contracts for licensed services (applicable as of January 1<sup>st</sup>, 2008 and not yet ratified by the European Union);
- ❖ IFRIC 13 – Customer loyalty programs (applicable as of January 1<sup>st</sup>, 2009 and not yet ratified by the European Union).

## □ CONSOLIDATION PRINCIPLES

### (a) Subsidiaries

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

Generally, control is presumed to exist if the Group holds more than half of the voting rights, also via paracorporate agreements or potential voting rights. Subsidiaries are consolidated at the time in which the Group is capable of exercising control and are de-consolidated when this control ceases.

The Group records acquisitions of controlling shareholdings by means of the purchase method. The acquisition cost is the sum of the price paid and any potential accessory charges.



Identifiable and acquired assets and liabilities are initially booked within the consolidated financial statements at their fair value which is determined on the date of acquisition.

The excess cost with respect to the shareholding quota of the fair value of net acquired assets is capitalized as goodwill amongst intangible fixed assets, if positive; if negative, it is immediately booked to the income statement.

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

*(b) Affiliated companies & Joint Ventures*

Affiliated companies are those in which the Group exercises significant influence but no form of control. Significant influence is presumed in the case that 20-50% of voting rights are held. Affiliated companies are initially recorded at cost and then accounted for using the *equity method*.

Joint Ventures are companies subject to common control. They are booked in accordance with IAS 31, paragraph 38, which provides for the recording of the shareholding by means of the equity method.

Group shareholdings within affiliated companies and joint ventures includes goodwill, as recorded at the time of acquisition and net of any potentially accumulated value losses.

The Group's Income Statement reflects the applicable share of the affiliated company and Joint Venture's result. If the affiliated company or the Joint Venture records an adjustment with a direct effect on shareholders' equity, the Group determines the portion that applies to it, reflecting such change in the Statement of Changes in Shareholders' Equity.

Booking the quota of a loss from an affiliated company or joint venture within the accounts of the Group includes a limit relative to the zeroing out of the investment value; additional loss quotas are only booked under liabilities if the Group has assumed obligations or has implemented payments on behalf of the affiliated company or joint venture.

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

□ **SECTOR REPORT**

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

A geographic sector differs from other sectors given that it internally produces products and services that are subject to risks and benefits which differ from those in other geographical sectors.

The PRIMA INDUSTRIE Group identifies the following primary sectors as requiring information reporting:

- 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.

The production activity relative to laser sources, although significant, has not been identified as a sector of its own given that it is essentially captive for the Group.

With regards to informational reporting relative to the assets and liabilities of the two market sectors, in accordance with IAS 14, the latter have been ascribed the assets and liabilities which are specifically inherent to the implemented activity, thereby not including the assets and liabilities of financial and fiscal nature.

#### □ **TRANSLATION OF ITEMS DENOMINATED IN FOREIGN CURRENCY**

##### *(a) Functional currency and statement reporting currency*

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

##### *(b) Assets, liabilities and transaction in currencies other than the Euro*

Transactions in currencies other than Euro are initially recorded at the exchange rate effective on the date of the operation.

Monetary assets and liabilities denominated in currencies other than Euro are converted at the exchange rate effective on the date of closing of the financial statements. All the exchange differences are reflected in the Income Statement.

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

##### *(c) Companies of the Group*

On the closing date of the financial statements, the assets and liabilities of the companies of the Group which are denominated in currencies other than Euro are converted at the exchange rate effective on the date of closing of the financial statements. Their income statement is converted by utilizing the average exchange rate of the year. The exchange differences are disclosed directly in shareholders' equity and are shown separately in the "Translation reserve". At the time of disposal of the company shareholding, the amount of the reserve is transferred to the income statement.

#### □ **TANGIBLE ASSETS**

All categories of tangible fixed assets, including real estate investments, are booked within the financial statements at their historical cost, decreased by any depreciation and impairment—with the exception of lands which are booked at their historical cost and potentially reduced by the impairment value. The cost includes all expenses which are directly ascribable to the purchase.

Costs sustained after the acquisition of the asset are booked as an increase of their historical value or booked separately, but only if it is probable that they will generate future economic benefits and if their cost can be reliably measured.

Depreciation of tangible fixed assets is calculated on a straight-line basis in order to distribute the residual book value across the economic-technical life, which is estimated as follows:

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

Extraordinary maintenance operations which are capitalized as increases of an existing asset are depreciated on the basis of the residual useful life of this asset or, if lower, within the period up until the subsequent maintenance operation.

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

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

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

Financial charges which are sustained for the construction of a tangible asset are booked within the income statement of the year of reference.

## □ INTANGIBLE ASSETS

### (a) *Goodwill*

Goodwill represents the excess price paid with respect to the fair value of the quota of net assets identifiable on the date of acquisition.

Goodwill which is generated from the acquisition of a shareholding quota in subsidiaries is booked under intangible assets. Goodwill which is generated from the acquisition of a shareholding quota in affiliated companies is booked as an increase in the shareholding value. Goodwill is booked within the financial statements at cost, adjusted by the impairment whose test is implemented annually. Gains or losses arising from the sale of the shareholding also takes into account the residual carrying value of the related goodwill.

### (b) *Software*

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

Costs associated with the development and maintenance of software programs are considered costs of the year and are therefore booked within the income statement of competence.

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

R&D costs are booked within the income statement of the year in which they are sustained.

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.

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

Development costs which do not retain these characteristics are booked within the income statement of the year in which they are sustained.

*(d) Other intangible assets*

Other intangible assets which are acquired separately are capitalized at cost while those acquired through company grouping operations are capitalized at their fair value which is determined on the date of acquisition.

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

Intangible assets which are internally produced are not capitalized but are booked within the income statement of the year in which they are sustained.

The other intangible assets are annually subject to impairment tests; this analysis may be implemented at the level of the individual intangible asset or unit which generates revenue flows.

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

□ **IMPAIRMENT**

Assets with undefined useful lives that are not subject to amortization are subject to impairment tests each year as well as each time there is an indication that their book value can not be recovered.

Assets subject to amortization are only subject to impairment tests if there is an indication that their book value can not be recovered.

The total write-down due to impairment is given by the difference between the book value of the asset and its recoverable value; the latter is determined as the greater number of the sales prices, net of transactions costs, and its usage value--i.e. the present value of generated cash flows.

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

## □ FINANCIAL ASSETS

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

The classification depends on the goals which motivated the acquisition; the Directors allocate the financial assets to their category of reference at the time of acquisition, revaluating this allocation at the end of each 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 allocated to the category from the beginning. A financial asset is entered into this category if it is primarily acquired for short-term re-selling or if entered into this category by the Directors in application of the fair value option.

Derivative financial instruments which do not have hedging requirements are entered within the class "held for trading".

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

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

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

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

These refer to non-derivative financial assets with fixed or definite payments and fixed maturities for which the Group has the intention and capacity to hold them until maturity.

### (d) *Financial investments held for sale*

These refer to non-derivative financial assets which are allocated in this category, even in a residual manner with respect to the preceding ones. These financial assets have been inserted within the class of current assets on the condition that the Directors do not decide to sell them beyond 12 months from the closing of the year.

Acquisitions and sales of financial assets are booked on their trading date which coincides with the date in which the Group commits to buying or selling the asset.

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

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

The two classes of financial assets, "available for sale" and "at fair value with changes in value recorded in the Income Statement" are subsequently valued at their fair value purchase. The other two classes, "financing and financial receivables" and "financial assets held until maturity" are valued according to the cost criterion and amortized by using the effective interest rate method.

Profits and losses—both realized and unrealized—which are derived from a change in the fair value of financial assets belonging to the category, "fair value with changes in value recorded in the Income statement", are recorded in the income statement of their year of accrual.

Unrealized profits and losses deriving from changes in the fair value of non-monetary securities classified within the category, "available for sale" are booked within shareholders' equity, net of their fiscal effect. 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 shareholdings is based on currently offered prices. In the case that an active market for financial assets does not exist or in the case that shareholding securities are not listed, the fair value is calculated by the Group by means of valuation techniques which include recent market transactions of similar instruments, the discounting of financial flows which are adapted to reflect the specific characteristics of the issuing entities.

At the time of closing of the financial statements, the Group verifies the existence of objective evidence of impairment in financial assets. In the case of financial assets representing shareholders' equity which are classified in the category, "available for sale", a significant and prolonged decline in their fair value with respect to their cost is considered one of the elements in the valuation of the value loss. If this evidence exists for a financial asset of the category, "available for sale", the accumulated value loss—calculated as the difference between the acquisition cost and the current fair value, net of implemented write-downs—is written off from shareholders' equity and booked in the income statement. The writedowns recorded in the Income Statement can no longer be reversed.

#### □ **INVENTORIES**

Warehouse inventories are booked at the lower of the cost and the net estimated realizable value, the latter being represented by the normal sales value during ordinary activities, net of variable sales expenses.

The cost is determined using the average weighted cost method. The cost of finished and semi-finished products includes planning costs, raw materials, direct labor costs, other direct and indirect costs which may be allocated to production activities on the basis of a normal production capacity and the state of work progress. This cost configuration does not include financial expenses.

#### □ **TRADE AND OTHER RECEIVABLES**

Trade receivables are initially booked at fair value and subsequently measured at their amortized costs by using the effective interest rate method, net of write-downs in order to take their irrecoverability. The write-down of a receivable is booked if there is objective evidence that the Group is not capable of collecting the full due amounts according to the deadlines stipulated with the customer. The write-down amount is determined as the difference between the book value of the receivable and the present value of future collections, discounted on the basis of the effective interest rate. The writedown of receivables is recorded in the Income Statement.

#### □ **CASH AND CASH EQUIVALENTS**

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

When this latter situation occurs, all additional expenses incurred net of the related tax effect is included in Group Shareholders' Equity

#### □ **SHARE CAPITAL**

Ordinary shares are classified in shareholders' equity.

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

Whenever the Group buys Parent Company shares (treasury shares), the purchase price net of any additional expenses that can be directly attributed to the purchase (net of taxes) is deducted from Group Shareholders' Equity until such time as the treasury shares is eliminated, re-issued or sold.

#### □ **LOANS**

Loans are initially booked within the financial statements at their fair value, net of any potential accessory charges. After their first disclosure, they are accounted for as amortized costs. Any difference between the collection net of any potential accessory charges and the reimbursement value is recorded within the income statement on an accruals basis by using the effective interest rate method.

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

#### □ **DEFERRED TAX**

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 the goodwill derived from a company grouping;
- on the initial booking of an asset or liability which is derived from a transaction that is not a company grouping and which does not involve effects on either the results of the year--calculated for financial statement purposes--or on taxable income.

Deferred taxes are calculated by utilizing the tax rates and laws which were issued on the closing date of the financial statements, or which were substantially issued, and which are expected to be applied at the time of transfer of the timing differences which generated the booking of the deferred taxes.

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

Receivables for advance taxes are reviewed at the close of each year and are potentially reduced in order to ensure that it is no longer probable that sufficient taxable income may become available in the future so as to allow all or part of these receivables to be utilized.

Deferred taxes are also calculated with respect to timing differences which originate from shareholdings in subsidiaries, affiliated companies and joint ventures, with the exception of the



case in which the transfer of timing differences may be controlled by the Group and it is probable that it may not occur in the immediate future.

Deferred taxes relative to items that are directly booked under shareholders' equity are also directly booked under shareholders' equity.

## □ **EMPLOYEE BENEFITS**

### (a) *Pension schemes*

Up until December 31<sup>st</sup>, 2006, employee termination indemnities were considered a fixed-benefit plan.

Regulation of these funds was modified by Law no. 296 of December 27<sup>th</sup>, 2006 ("2007 Financial Act) and subsequent Decrees and Regulations issued in the first months of 2007. In light of these modifications and, in particular, with reference to companies with at least 50 employees, this scheme must now only be considered a fixed—benefit plan for quotas accrued before January 1<sup>st</sup>, 2007 (and not yet liquidated within the financial statements) while the quotas which accrued subsequently to this date are comparable to a fixed-contribution plan.

The Cometa fund (CCNL supplementary pension fund) is considered equivalent to a fixed-contribution plan.

Fixed-benefit plan are retirement plans which define the total amount of the retirement benefit which is due to the worker at the time of cessation of the employment relationship; this amount depends upon a variety of factors such as age, years of service and salary.

Fixed-contribution plans are retirement plans for which the Group pays a fixed amount to a separate entity. The Group does not have any legal or implicit obligation to pay further sums should the assets serving the scheme become insufficient to pay the employees the benefits due to them for current and past services.

The liability booked within the financial statements in connection with fixed—benefit plans is the present value of the obligation due on the closing date of the financial statements, net of the fair value of the assets serving the plan (if existent), both of which are adjusted for the total actuarial earnings and losses and for the social security cost relative to past services. The obligation is determined on an annual basis by an independent actuary by means of the Projected Unit Credit Method. The present value of the obligation is determined by discounting the estimate of future disbursements at the interest rate of primary bonds issued with the same currency with which the benefits will be paid and with a maturity that is close to the deadlines of correlated retirement liabilities.

The cumulative actuarial earnings and losses derived from changes in estimates which exceed 10% of the greater value between the the fair value of the assets serving the plan (if existent) and 10% of the obligation referring to the fixed-benefit plan are booked within the income statement on an accruals basis on the basis of the average residual working years expected from employees which adhere to the plan.

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

For defined contribution plans the Group pays contributions to state or private pension funds on a compulsory, contractual or voluntary basis. Once these contributions have been paid, the Group



has no further obligations. The contributions paid are recorded in the Income Statement under labour costs when they fall due. Contributions paid in advance are recorded amongst the prepaid expenses only if a refund or a reduction of future payments is expected.

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

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

The liability booked within the financial statements in connection with these benefits plans is the present value of the obligation on the closing date of the financial statements, net of the fair value of the assets serving the plan (if existent), both of which are adjusted for the total actuarial earnings and losses and the relative accrued benefits. The obligation is determined on an annual basis by an independent actuary by means of the Projected Unit Credit Method. The present value of the bond is determined by discounting the estimate of future disbursements at the interest rate of primary bonds issued with the same currency with which the benefits will be paid and with a maturity that is close to the deadlines of correlated liabilities.

The cumulative actuarial earnings and losses derived from changes in estimates which exceed 10% of the greater value between the the fair value of the assets serving the plan (if existent) and 10% of the obligation referring to the fixed-benefit plan are booked within the income statement on an accruals basis on the basis of the average residual working years with respect to the date of attainment of the seniority pre-determined for employees which adhere to the plan.

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

Workers are entitled to receive these benefits on early termination of the employment relationship, prior to the retirement date or in the case of termination due to a corporate restructuring plan. The Group records a liability in the Financial Statements to meet such benefits when: a) there is a formal and detailed incentives plan for exiting the company without the possibility that the employee renounces and b) an offer is made to employees in order to encourage their voluntary resignation. The amounts payable beyond 12 months of the closure of the Financial Statements are discounted back.

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

The Group records a cost and a debt to meet the liabilities that arise for bonuses, employee incentives and profit-sharing schemes, determined using a formula that considers profits attributable to shareholders after certain adjustments are made. The Group only books a liability if contractually required or if there exists a custom to define an implicit obligation.

*(e) Employee benefits granted in shares*

The management of the Group, on a discretionary basis and on a case by case basis, allocates bonuses to key employees in the form of stock options relative to company shares (stock option plans). The right to exercise the options accrues on the basis of personal objective after one year of service. The fair value of options is a labor cost of the year which increases a special shareholders' equity reserve for the whole period of maturity of the options. At the time of exercising of the options, the collected amount, net of any potential transaction costs, is attributed to the share capital (with regards to the part relative to the nominal value of the shares) and to the price premium reserve (for the price premium part). There are currently no stock option plans for Group employees.

## □ PROVISIONS FOR RISKS AND CHARGES

Provisions are allocated to risks and charges when:

- a legal or implicit obligation arises for the Group as a result of past events,
- it is probable that resources will be utilized in order to meet the obligation and its amount.
- it can be reliably determined.

Restructuring funds include both liabilities deriving from company exiting incentives as well as from penalties linked to the cancellation of leasing contracts. Provisions cannot be allocated to risks and charges to meet future operating losses.

Allocations are booked by discounting the best estimates implemented by directors in order to identify the amount of costs which the Group must sustain on the closing date of the financial statements in order to redeem the obligation.

## □ RECOGNITION OF REVENUES

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

### (a) *Sale of goods*

Revenues are booked at the time in which the company has transferred the significant risks and benefits linked to ownership of the good and when its amount can be reliably estimated.

Revenues from the sale of laser systems are booked at the time of acceptance of the machines on the part of the final customer; this moment generally coincides with the date of undersigning of the testing minutes on the part of the final customer.

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

Following a misalignment between the invoicing date and the date of recognition of the revenue, the countervalue of machines which are invoiced but not yet accepted by the customer are re-entered amongst the inventories of finished products, net of the margin, and offset within the "accounts" account under liabilities. The Group has chosen this presentation, instead of reducing the "trade receivables" account, because this option ensures correct portrayal of underlying contractual relationships.

### (b) *Services*

Revenues from services are booked on the basis of the state of progress in the year in which they are performed.

### (c) *Interest*

Receivable interest is booked on an accruals basis and in accordance with the criterion of amortized cost by utilizing the effective interest rate (a rate which precisely discounts future expected financial flows on the basis of the expected lifetime 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 booked in the year in which the right of shareholders to receive the payment becomes effective.

□ **LEASING**

Leasing contracts relative to elements of tangible fixed assets are considered financial leases if the Group essentially retains all the risks and benefits deriving from ownership of the good. Goods subject to finance leases are capitalized at the start of the lease contract at the lower of the fair value of the leased good and the present value of the leasing fees. The leasing fee is separate between the capital quota and the interest quota, determined by applying a constant interest rate to the residual debt.

The financial payable due to the leasing company is booked under short-term liabilities for its current portion and under long-term liabilities for the quota which must be reimbursed after the year.

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

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

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

□ **DISTRIBUTION OF DIVIDENDS**

The distribution of dividends to shareholders generates a payable at the time of approval of the shareholder's assembly.

□ **STATE GRANTS**

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

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

State grants for the acquisition of tangible fixed assets are booked under deferred income and are credited to the income statement on the basis of the depreciation of the goods for which they were granted.

## □ THE FINANCIAL RISK FACTORS

Financial instruments of the Group which are allocated for the purposes of financing operations include bank loans, finance lease contracts, demand bank deposits and short-term bank deposits. There are also other financial instruments such as trade payables and receivables which are derived from operational activities and from derivative financial instruments such as interest rate swaps and forward contracts in foreign currency.<

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

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

Currency risk: the Group operates within an international environment and is subject to fluctuations in exchange rates, in particular the USD versus Euro exchange. Currency risk arises in relation to the following business transactions, mainly in US Dollars:

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

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

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

The Group holds shareholdings in Chinese joint ventures: Shenyang Prima Machine Laser Co. Ltd at 50%, Shanghai Unity Prima Laser Machinery Co. Ltd. At 27.5% and OVL Convergent Laser al 30%. The value of these shareholdings is respectively subject to currency risk deriving from fluctuations in the USD and the Remimbi (RMB) with respect to the Euro. The Group does not believe that the value of the shareholdings is such that specific hedging activity is required to cover currency risk

*Price risk:* exposure of the Group to price risk is minimum.

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

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

*Liquidity risk:* the objective of the Group is to maintain a balance between the optimization of working capital and the maintenance of provisions and financial flexibility by utilizing overdrafts, loans and finance lease contracts. The Group's objective is to keep the net debt to equity ratio between 0.5 and 1. The Group has short-term credit lines that exceed its immediate liquidity requirements.

*Interest rate risk on fair value and on liquidity flows:* the exposure of the Group to interest rate risk primarily involves financial payables with respect to leasing companies as well as medium to long-term loans from bank corporations and other financiers; the latter are typically stipulated at the Euribor rate increased by a spread. The interest rate risk is partially covered by interest rate swaps (IRS) which transform the variable rate into a fixed rate which is, in any case, less than the fixed rate which the Group would obtain by resorting to the credit market. IRS contracts are stipulated so as to ensure that the two counterparties exchange the net value of variable/fixed interest flows.

#### *Sensitivity pursuant to IFRS 7*

Positive net indebtedness—both at the time of opening and closing of the year 2007, along with the modest amount of financial charges—ensure that the impact of a sensitivity analysis is not significant. On the other hand, the acquisition of the Finn-Power Group on February 4<sup>th</sup> 2008 results in a drastic change in the financial structure of the Group and the relative debt which was created will be subject to a sensitivity analysis in 2008.

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

The hedging instruments described in the previous paragraph, although not speculative in nature, do not reflect the characteristics required by IAS 39 for the application of hedge accounting; as a result and in accordance with IAS 39, these instruments are classified within the category of financial assets and liabilities at their “fair value with changes to the latter in the income statement”.

### □ **ESTIMATE OF FAIR VALUE**

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

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

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

With regards to receivables, it is hypothesized that the nominal value, net of any potential adjustments which are implemented in order to take their payable nature into account, approximates the fair value.

For the purposes of informational disclosure, the fair value of financial liabilities is determined by discounting the contractual financial flows at an interest rate which approximates the market rate at which the Group finances itself.

## **INFORMATIONAL DISCLOSURE PURSUANT TO § 116 ET SEQ. OF IAS 1**

The drafting of the financial statements requires that management applies a series of subjective assumptions and estimates that are based on past experience.

The application of these estimates and assumptions influences the amounts of assets and liabilities booked within the balance sheet as well as the costs and proceeds recorded within the income statement. The actual results can differ significantly from the estimate made, in view of the natural uncertainty that surrounds the assumptions and the conditions on which the estimates are based.

A list of the primary accounting items is provided below; their formulation has required that management apply a greater amount of assumptions and estimates.

### **Deferred taxes**

Deferred tax assets and liabilities which are booked within the financial statements are determined by applying the tax rates which are presumed to be applicable in the various countries during the year in which the timing differences cease to be effective to the differences between the statutory and fiscal values that are recorded for the various assets and liabilities.

Deferred taxes relative fiscal losses which are carried forward to subsequent years are only booked within the financial statements if and to the degree that management deems it probable that the affected company will—in subsequent years—attain a positive tax result which allows for their absorption.

If events occur after the time in which the estimates are made which result in changes to these valuations, or if the tax rate utilized for the calculation of deferred taxes has changed, the items booked within the financial statements will be subject to adjustment.

## 7. BUSINESS COMBINATIONS

On 2/07/2007, PRIMA ELECTRONICS S.p.A. acquired 100% of the share capital of OSAI S.p.A. The compensation paid was equal to 9,621 thousand Euro, including accessory charges relating to the acquisition (due diligence and consulting fees) totaling 121 thousand Euro, in addition to an earn out set for an amount equal to 795 thousand Euro (for a total amount equal to 10,416 thousand Euro).

In accordance with the provisions of IFRS 3, paragraph 67, the composition of acquired assets and liabilities on this date is provided below, valued in compliance with Italian Accounting Principles, as well as the balance of net assets:

| <b>ASSETS</b>                                                         | <b>(thousands of Euro)</b> |
|-----------------------------------------------------------------------|----------------------------|
| Intangible fixed assets                                               | 32                         |
| Tangible fixed assets                                                 | 1.040                      |
| Financial fixed assets (at cost)                                      | 0                          |
| Tax assets for prepaid taxes                                          | 99                         |
| Other receivables                                                     | 305                        |
| <b>NON-CURRENT ASSETS</b>                                             | <b>1.476</b>               |
| Inventories                                                           | 3.826                      |
| Trade and other receivables                                           | 7.534                      |
| Financial assets                                                      | 569                        |
| Cash & cash equivalents                                               | 2.006                      |
| <b>TOTAL CURRENT ASSETS</b>                                           | <b>13.935</b>              |
| <b>TOTAL ASSETS</b>                                                   | <b>15.411</b>              |
| <b>LIABILITIES</b>                                                    | <b>(thousands of Euro)</b> |
| Loans                                                                 | 707                        |
| Deferred payables-employees for defined benefit plan (Severance Fund) | 3.072                      |
| Deferred tax liabilities                                              | 17                         |
| <b>NON-CURRENT LIABILITIES</b>                                        | <b>3.796</b>               |
| Payables due to banks and loans                                       | 214                        |
| Trade and other payables                                              | 5.462                      |
| Tax liabilities for current taxes                                     | 485                        |
| Provisions for risks and charges                                      | 621                        |
| <b>TOTAL CURRENT LIABILITIES</b>                                      | <b>6.782</b>               |
| <b>TOTAL LIABILITIES</b>                                              | <b>10.578</b>              |
| <b>TOTAL ASSETS THAT CAN BE RECORDED IN THE FIN. STATE.</b>           | <b>4.833</b>               |

The analysis required by IFRS 3 relative to the booking of the various classes of assets and liabilities resulted in the following results, determined in compliance with the IAS-IFRS:



| <b>ASSETS</b>                                                           | <b>(thousands of Euro)</b> |
|-------------------------------------------------------------------------|----------------------------|
| Intangible fixed assets                                                 | 15                         |
| Tangible fixed assets                                                   | 3.365                      |
| Financial fixed assets (at cost)                                        | 0                          |
| Tax assets for prepaid taxes                                            | 278                        |
| Other receivables                                                       | 100                        |
| <b>NON-CURRENT ASSETS</b>                                               | <b>3.758</b>               |
| Inventories                                                             | 3.614                      |
| Trade and other receivables                                             | 7.461                      |
| Financial assets                                                        | 665                        |
| Cash & cash equivalents                                                 | 2.006                      |
| <b>TOTAL CURRENT ASSETS</b>                                             | <b>13.746</b>              |
| <b>TOTAL ASSETS</b>                                                     | <b>17.504</b>              |
| <b>LIABILITIES</b>                                                      | <b>(thousands of Euro)</b> |
| Loans                                                                   | 707                        |
| Deferred payables - employees for defined benefit plan (Severance Fund) | 2.676                      |
| Deferred tax liabilities                                                | 1.187                      |
| <b>NON-CURRENT LIABILITIES</b>                                          | <b>4.570</b>               |
| Payables due to banks and loans                                         | 214                        |
| Trade and other payables                                                | 5.462                      |
| Tax liabilities for current taxes                                       | 485                        |
| Provision for risks and charges                                         | 243                        |
| <b>TOTAL CURRENT LIABILITIES</b>                                        | <b>6.404</b>               |
| <b>TOTAL LIABILITIES</b>                                                | <b>10.974</b>              |
| <b>TOTAL ASSETS THAT CAN BE RECORDED IN THE FIN. STATE.</b>             | <b>6.530</b>               |

The difference between net assets booked in the financial statements and the greater bookable values (equal to 1,697 thousand Euro) is primarily due to the increase in value attributed to the property in Barone Canavese (the registered office of OSAI S.p.A.); this is based on an expert valuation.

During the course of the valuation, it was also decided that the shareholding in the company E-motion (whose value is equal to one Euro) should be allocated under assets available for sale.

Taking into account that 96.33% of the OSAI Group was acquired on 02/07/2007, these analysis yields a surplus of 4,125 thousand Euro, corresponding to the difference between the paid price and the corresponding assets which were acquired and booked within the consolidated financial statements of the group.

This amount should be considered goodwill and takes into account the earn-out of 795 thousand Euro which is payable to the sellers.

During the course of the second half of 2007—which was the first period in which the economic results of the OSAI Group were considered within the consolidated financial statements of the Prima Industrie Group—OSAI achieved an EBIT of 669 thousand Euro with revenues of 9,390 thousand Euro.

Turnover and earnings were determined in accordance with IAS/IFRS.

With regards to information relative to revenues and the pro-forma economic result of OSAI—required by IFRS 3, paragraph 70—the additional revenues would have been equal to 9,370 thousand Euro if the acquisition of the company was implemented on 1/1/2007 (this amount was



calculated according to Italian Accounting Principles) while the increase in net result of the period would have been equal to 188 thousand Euro (calculated according to Italian Accounting Principles).

## 8. SECTOR REPORT

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

With regards to trends in the two business sectors, it should be noted that the “Laser Systems” sector reported 10.8% growth as of 31/12/2007 with respect to 31/12/2006 while the “Electronics” segment reported 88.6% growth, again net of intersector revenues. The latter was also due to the acquisition of the OSAI Group (2/07/2007).

### PRIMARY SECTOR

*(values in thousands of euro)*

| <b>Sector result - 31/12/2007</b>            | <b>Laser system</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b>   |
|----------------------------------------------|---------------------|--------------------|--------------------|----------------|
| Total sector revenues                        | 145.205             | 37.346             | -                  | 182.551        |
| (Infra-sector revenues)                      | -                   | (6.160)            | -                  | (6.160)        |
| <b>Revenues</b>                              | <b>145.205</b>      | <b>31.186</b>      | -                  | <b>176.391</b> |
| Operating result                             | 18.334              | 5.250              | -                  | 23.584         |
| Net financial income/expenses                | (936)               | (220)              | -                  | (1.156)        |
| Income/exp. from assoc. co. & joint ventures | 473                 | -                  | -                  | 473            |
| <b>Operating profit/loss before tax</b>      | -                   | -                  | -                  | <b>22.901</b>  |
| Taxes                                        | -                   | -                  | -                  | (9.154)        |
| <b>Net profit/loss</b>                       | -                   | -                  | -                  | <b>13.747</b>  |
|                                              |                     |                    |                    |                |
|                                              |                     |                    |                    |                |
| <b>Sector result - 31/12/2006</b>            | <b>Laser system</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b>   |
| Total sector revenues                        | 131.035             | 21.592             | -                  | 152.627        |
| (Infra-sector revenues)                      | -                   | (5.058)            | -                  | (5.058)        |
| <b>Revenues</b>                              | <b>131.035</b>      | <b>16.534</b>      | -                  | <b>147.569</b> |
| Operating result                             | 16.806              | 1661               | -                  | 18.467         |
| Net financial income/expenses                | (870)               | (30)               | -                  | (900)          |
| Income/exp. from assoc. co. & joint ventures | 10                  | -                  | -                  | 10             |
| <b>Operating profit/loss before tax</b>      | -                   | -                  | -                  | <b>17.577</b>  |
| Taxes                                        | -                   | -                  | -                  | (3.857)        |
| <b>Net profit/loss</b>                       | -                   | -                  | -                  | <b>13.720</b>  |

*(values in thousands of euro)*

| <b>Sector information - 31/12/2007</b>      | <b>Laser systems</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b> |
|---------------------------------------------|----------------------|--------------------|--------------------|--------------|
| Depreciation of tangible fixed assets       | 821                  | 472                | -                  | <b>1.293</b> |
| Deprec. & impairment of intang.fixed assets | 192                  | 39                 | -                  | <b>231</b>   |
| <b>Total</b>                                | <b>1.013</b>         | <b>511</b>         |                    | <b>1.524</b> |

| <b>Sector information - 31/12/2006</b>      | <b>Laser systems</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b> |
|---------------------------------------------|----------------------|--------------------|--------------------|--------------|
| Depreciation of tangible fixed assets       | 806                  | 353                | -                  | <b>1.159</b> |
| Deprec. & impairment of intang.fixed assets | 116                  | 56                 | -                  | <b>172</b>   |
| <b>Total</b>                                | <b>922</b>           | <b>409</b>         |                    | <b>1.331</b> |

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| <b>Assets and liabilities - 31/12/2007</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b>   |
|--------------------------------------------|----------------------|--------------------|--------------------|----------------|
| Assets                                     | 91.013               | 21.376             | 33.913             | 146.302        |
| Associated companies & joint ventures      | 2.287                | 750                | -                  | 3.037          |
| <b>Total assets</b>                        | <b>93.300</b>        | <b>22.126</b>      | <b>33.913</b>      | <b>149.339</b> |
| <b>Liabilities</b>                         | <b>49.934</b>        | <b>17.298</b>      | <b>30.666</b>      | <b>97.898</b>  |
| <b>Investments</b>                         | <b>1.807</b>         | <b>202</b>         | <b>-</b>           | <b>2.009</b>   |

| <b>Assets and liabilities - 31/12/2006</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Unallocated</b> | <b>Group</b>   |
|--------------------------------------------|----------------------|--------------------|--------------------|----------------|
| Assets                                     | 68.556               | 16.054             | 30.141             | 114.751        |
| Associated companies & joint ventures      | 2.590                |                    | -                  | 2.590          |
| <b>Total assets</b>                        | <b>71.146</b>        | <b>16.054</b>      | <b>30.141</b>      | <b>117.341</b> |
| <b>Liabilities</b>                         | <b>41.868</b>        | <b>7.769</b>       | <b>25.345</b>      | <b>74.982</b>  |
| <b>Investments</b>                         | <b>1.246</b>         | <b>631</b>         | <b>-</b>           | <b>1.877</b>   |

**SETTORE SECONDARIO***(values in thousands of euro)*

| <b>Geographical sectors - 31/12/2007</b> | <b>Italy</b>  | <b>Europe</b> | <b>USA</b>    | <b>Rest of the world</b> | <b>Group</b>   |
|------------------------------------------|---------------|---------------|---------------|--------------------------|----------------|
| <b>Revenues from sales</b>               | <b>42.958</b> | <b>82.774</b> | <b>29.762</b> | <b>20.897</b>            | <b>176.391</b> |
| <b>Assets</b>                            | <b>85.970</b> | <b>15.145</b> | <b>26.848</b> | <b>-</b>                 | <b>149.339</b> |
| <b>Investments</b>                       | <b>1.691</b>  | <b>60</b>     | <b>258</b>    | <b>-</b>                 | <b>2.009</b>   |
|                                          |               |               |               |                          |                |
|                                          |               |               |               |                          |                |
| <b>Geographical sectors - 31/12/2006</b> | <b>Italy</b>  | <b>Europe</b> | <b>USA</b>    | <b>Rest of the world</b> | <b>Group</b>   |
| <b>Revenues from sales</b>               | <b>35.786</b> | <b>68.400</b> | <b>29.412</b> | <b>13.971</b>            | <b>147.569</b> |
| <b>Assets</b>                            | <b>79.835</b> | <b>13.468</b> | <b>24.039</b> | <b>-</b>                 | <b>117.341</b> |
| <b>Investments</b>                       | <b>1.323</b>  | <b>130</b>    | <b>424</b>    | <b>-</b>                 | <b>1.877</b>   |



**PRIMA INDUSTRIE GROUP**

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**DETAILS RELATIVE TO THE CONSOLIDATED FINANCIAL  
STATEMENTS AS OF DECEMBER 31ST, 2007**

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## 9. EXPLANATORY DETAILS RELATIVE TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31ST, 2007

*THE CHANGE IN THE SCOPE OF CONSOLIDATION REFERS TO THE INCLUSION OF THE OSAI GROUP WHICH WAS NOT INCLUDED WITHIN THE FINANCIAL STATEMENTS OF 31/12/06.*

### NOTE 9.1

| Tangible fixed assets                          | Land and buildings | Plant and machinery | Industrial & commercial equipment | Other assets     | Fixed assets under construction | TOTAL             |
|------------------------------------------------|--------------------|---------------------|-----------------------------------|------------------|---------------------------------|-------------------|
| <b>01/01/2006</b>                              |                    |                     |                                   |                  |                                 | -                 |
| Historical cost                                | 3.479.370          | 5.258.569           | 3.923.452                         | 5.611.782        |                                 | 18.273.173        |
| Accumulated depreciation                       | (476.087)          | (3.584.036)         | (3.437.377)                       | (4.997.153)      |                                 | (12.494.653)      |
| <b>Net value at 1 January 2006</b>             | <b>3.003.283</b>   | <b>1.674.533</b>    | <b>486.075</b>                    | <b>614.629</b>   | -                               | <b>5.778.520</b>  |
| <b>Year 2006</b>                               |                    |                     |                                   |                  |                                 |                   |
| Net value at 1 January 2006                    | 3.003.283          | 1.674.533           | 486.075                           | 614.629          |                                 | 5.778.520         |
| Change in the area of consolidation            |                    | 43.109              |                                   | 32.224           |                                 | 75.333            |
| Exchange differences                           |                    | (238.317)           | 623                               | (256.802)        |                                 | (494.496)         |
| Increases                                      | 56.500             | 807.287             | 456.757                           | 419.538          |                                 | 1.740.082         |
| Reclassifications                              |                    |                     |                                   |                  |                                 | -                 |
| Disposals                                      |                    |                     | (6.227)                           | (168.366)        |                                 | (174.593)         |
| Depreciation                                   | (93.684)           | (411.393)           | (302.196)                         | (341.414)        |                                 | (1.148.687)       |
| Utilization of accumulated depreciation        |                    |                     | 6.227                             | 160.072          |                                 | 166.299           |
| Exchange differences on accum.deprec.          |                    | 163.924             | (216)                             | 320.942          |                                 | 484.650           |
| Reclassification of accum deprec.              |                    |                     |                                   |                  |                                 | -                 |
| <b>Net value at 31 December 2006</b>           | <b>2.966.099</b>   | <b>2.039.143</b>    | <b>641.043</b>                    | <b>780.823</b>   | -                               | <b>6.427.108</b>  |
| <b>Year 2007</b>                               |                    |                     |                                   |                  |                                 |                   |
| Historical cost                                | 3.535.870          | 5.870.648           | 4.374.605                         | 5.638.376        |                                 | 19.419.499        |
| Accumulated depreciation                       | (569.771)          | (3.831.505)         | (3.733.562)                       | (4.857.553)      |                                 | (12.992.391)      |
| <b>Net value at 1 January 2007</b>             | <b>2.966.099</b>   | <b>2.039.143</b>    | <b>641.043</b>                    | <b>780.823</b>   | -                               | <b>6.427.108</b>  |
| <b>Year 2007</b>                               |                    |                     |                                   |                  |                                 |                   |
| Net value at 1 January 2007                    | 2.966.099          | 2.039.143           | 641.043                           | 780.823          |                                 | 6.427.108         |
| Change in the area of consolidation            | 3.125.000          | 101.519             | 111.656                           | 116.685          |                                 | 3.454.860         |
| Exchange differences                           |                    | (249.781)           | (2.036)                           | (252.282)        |                                 | (504.099)         |
| Increases                                      | 25.900             | 418.976             | 520.979                           | 579.554          | 243.624                         | 1.789.033         |
| Reclassifications                              |                    |                     |                                   | 4.033            |                                 | 4.033             |
| Disposals                                      |                    |                     | (49)                              | (49.175)         |                                 | (49.224)          |
| Depreciation                                   | (149.855)          | (443.385)           | (346.930)                         | (331.193)        |                                 | (1.271.363)       |
| Utilization of accumulated depreciation        |                    |                     | (972)                             | 22.665           |                                 | 21.693            |
| Exchange differences on accum.deprec.          |                    | 160.385             | 395                               | 227.698          |                                 | 388.478           |
| Variation in area of consolid.on accum.deprec. |                    | 11.600              | (84.341)                          | (21.900)         |                                 | (94.641)          |
| Reclassification of accum deprec.              |                    |                     |                                   |                  |                                 | -                 |
| <b>Net value at 31 December 2007</b>           | <b>5.967.144</b>   | <b>2.038.457</b>    | <b>839.745</b>                    | <b>1.076.908</b> | <b>243.624</b>                  | <b>10.165.878</b> |
| <b>31/12/2007</b>                              |                    |                     |                                   |                  |                                 |                   |
| Historical cost                                | 6.686.770          | 6.141.362           | 5.005.155                         | 6.037.191        | 243.624                         | 24.114.102        |
| Accumulated depreciation                       | (719.626)          | (4.102.905)         | (4.165.410)                       | (4.960.283)      |                                 | (13.948.224)      |
| <b>Net value at 31 December 2007</b>           | <b>5.967.144</b>   | <b>2.038.457</b>    | <b>839.745</b>                    | <b>1.076.908</b> | <b>243.624</b>                  | <b>10.165.878</b> |

Lands and buildings have been valued by an independent expert who determined their fair value; as of 31/12/2007, this value was not less than the book value.

These refer to:

- ❖ three properties equal to a net value of 2,896 thousand Euro for the building on 31/12/2007 as well as 1,483 thousand Euro on 31/12/2007 for the land;
- ❖ one property subject to finance leasing, equal to a net value of 983 thousand Euro on 31/12/2007 as well as 463 thousand Euro on 31/12/2007 for the land;
- ❖ light buildings for a net value of 142 thousand Euro on 31/12/2007.

The increase relative to properties and lands should be ascribed to Osai Spa, a company which entered the scope of consolidated in the year 2007.

The item, "Other Goods", includes electronic and office machinery subject to finance leases totaling a net value of 23 thousand Euro.

The exchange rate differences are derived from the translation of foreign currency amounts in financial statements of companies operating in non-Euro areas.

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

## NOTE 9.2

| Intangible fixed assets              | Goodwill         | Other assets   | TOTAL            |
|--------------------------------------|------------------|----------------|------------------|
| <b>Year 2006</b>                     |                  |                |                  |
| Net value at 1 January 2006          | 2.586.959        | 151.968        | 2.738.927        |
| Change in the area of consolidation  |                  | 2.533          | 2.533            |
| Exchange differences                 | (269.570)        | 3.977          | (265.593)        |
| Increases                            | 28.324           | 178.499        | 206.823          |
| Depreciation                         | -                | (171.615)      | (171.615)        |
| <b>Net value at 31 December 2006</b> | <b>2.345.713</b> | <b>165.362</b> | <b>2.511.075</b> |
| <b>Year 2007</b>                     |                  |                |                  |
| Net value at 1 January 2007          | 2.345.713        | 165.362        | 2.511.075        |
| Change in the area of consolidation  | 124.486          | 15.002         | 139.488          |
| Exchange differences                 | (244.131)        |                | (244.131)        |
| Increases/(decreases)                | 4.125.190        | 412.461        | 4.537.651        |
| Depreciation                         |                  | (231.037)      | (231.037)        |
| <b>Net value at 31 december 2007</b> | <b>6.351.258</b> | <b>361.788</b> | <b>6.713.046</b> |

The item goodwill, as of 31/12/2006, corresponds to the greater value recognized to the seller for the acquisition of the divisions LASERDYNE SYSTEMS and CONVERGENT LASERS in 2000 and 2001—which were incorporated into PRIMA North America, Inc.,—with respect to the difference between acquired assets and liabilities.

The increase in the same item recorded in the year 2007 refers to the subsidiary OSAI SpA, acquired on 2/07/2007.

The item, "Other Goods" is composed of patents totaling 24 thousand Euro, licenses for 69 thousand Euro and software for 269 thousand Euro.

## IMPAIRMENT ON GOODWILL

Goodwill has been subject to an impairment test.  
Given that the outcome was positive, the value of goodwill was not reduced.

For the purposes of an impairment test, goodwill has been allocated to the respective minimum cash flow generating units which coincide with the operational units identified in the respective activity sectors

### GOODWILL: PRIMA North America

The goodwill stated in the financial statements and relative to the PNA concerns the two cash flow generating units composed of the divisions LASERDYNE SYSTEMS and CONVERGENT LASERS of PRIMA North America, Inc.

The recoverable value of the minimum cash flow generating units was determined by calculating their usage value, i.e. by discounting future projected cash flows for each minimum cash flow generating unit which were derived from 5-year forecasts drafted by management

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

### Main hypothesis for analysing the recoverable value

| Intangible fixed assets                                | Division<br>Laserdyne Systems | Division<br>Convergent Lasers |
|--------------------------------------------------------|-------------------------------|-------------------------------|
| Earn.before interest, tax, deprec. & amort.(2006-2008) | 14,50%                        | 14,00%                        |
| Growth rate (CAGR 05-08)                               | 0,00%                         | 0,00%                         |
| Discounting rate                                       | 14,10%                        | 14,10%                        |

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

A CAGR of revenues equal to zero was prudentially calculated for the first five years in question:

- with regards to operating margins, they were assumed to be stable given that the Laserdyne Division holds a position of leadership within the market for laser systems for aerospace applications while the Convergent Division retains an essentially Captive market.
- the above prudential hypotheses mean that structure costs were effectively considered fixed.

The sum of the EBITDA's has been discounted by taking into account the average cost of capital of PRIMA North America as of 31/12/2007 (which appears elevated given that PRIMA North America had not debt on that date); this amount was reported in comparison to the amount booked as goodwill.

### GOODWILL - OSAI

With regards to Goodwill deriving from the acquisition of OSAI SpA, it was allocated to the two business lines, "Industrial Automation" and "Post-Sales Assistance", which were created within the OSAI Group. No impairment test was implemented given that the acquisition occurred on 2/07/2007; as a result, the test will be implemented in 2008.

**NOTE 9.3****Shareholdings valued using the equity method**

| <b>Shareholdings in associated companies</b> | <b>MLTA</b> | <b>TOTAL</b>    |
|----------------------------------------------|-------------|-----------------|
| <b>01/01/2006</b>                            | 26.923      | <b>26.923</b>   |
| Share of earnings                            | -           | -               |
| Increases                                    | -           | -               |
| Inclusion in the area of consolidation       | (26.923)    | <b>(26.923)</b> |
| Other shareholders' equity movements         | -           | -               |
| <b>31/12/2006</b>                            | -           | -               |
| Share of earnings                            | -           | -               |
| Increases                                    | -           | -               |
| Inclusion in the area of consolidation       | -           | -               |
| Other shareholders' equity movements         | -           | -               |
| <b>31/12/2007</b>                            | -           | -               |

| <b>Stakes in joint ventures</b>      | <b>SPMLC</b>   | <b>SNK</b>     | <b>SUP</b>       | <b>TOTAL</b>     |
|--------------------------------------|----------------|----------------|------------------|------------------|
| <b>01/01/2006</b>                    | 585.644        | 214.907        | 981.605          | <b>1.782.156</b> |
| Share of earnings                    | (239.985)      | (41.561)       | 287.296          | <b>5.750</b>     |
| Increases                            | -              | -              | -                | -                |
| Other shareholders' equity movements | -              | -              | -                | -                |
| <b>31/12/2006</b>                    | <b>345.659</b> | <b>173.346</b> | <b>1.268.901</b> | <b>1.787.906</b> |
| Share of earnings                    | -              | (19.463)       | 812.133          | <b>792.670</b>   |
| Increases                            | -              | -              | -                | -                |
| Other shareholders' equity movements | (345.659)      | -              | -                | <b>(345.659)</b> |
| <b>31/12/2007</b>                    | -              | <b>153.883</b> | <b>2.081.034</b> | <b>2.234.917</b> |

With regards to shareholdings in affiliated companies, the shareholdings in Macromeccanica S.p.A. (liquidated at the end of 1999) and in Mechanical Industries S.r.l. (whose bankruptcy was declared on 26 - 31/03/03) are retained within the financial statements with a value of zero, given their total write-down

The Company MLTA is no longer part of the scope of consolidation given that it has been completely incorporated within PRIMA ELECTRONICS S.p.A.

The Group recorded a 30% shareholding within the Joint Venture Whuan OVL Convergent for a value of zero due to the following reasons:

- difficulty in reliably allocating the fair value of the granted usage license;
- continued managerial involvement in the transferred asset, an element preventing the booking of revenues, in accordance with IAS 18.14b;
- no cash outflows on the part of the PRIMA INDUSTRIE Group.



With regards to shareholdings in joint ventures, the primary movements of the year were as follows:

- allocation of circa 346 thousand Euro to the SPLMC write-down fund, zeroing out the value of the shareholding given that the value loss was deemed to be lasting;
- allocation of circa 19 thousand Euro to the SNK write-down fund, equal to the quota of competence of the result of the subsidiary, valued with the equity method;
- allocation of circa 812 thousand Euro as an adjustment for the Shareholders' Equity of Shanghai Unity PRIMA, equal to the quota of competence of the result of the subsidiary, valued with the equity method;

#### Information on joint-venture investments:

| <b>SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD. (1)</b> | <b>31/12/07</b> | <b>31/12/06</b> |
|----------------------------------------------------------|-----------------|-----------------|
| Non-current assets                                       | 712             | 685             |
| Current assets                                           | 25.449          | 12.658          |
| Non-current liabilities                                  | -               | -               |
| Current liabilities                                      | (19.030)        | (8.931)         |
| <b>Net assets</b>                                        | <b>7.131</b>    | <b>4.412</b>    |
| Revenues                                                 | 17.955          | 9.989           |
| Costs                                                    | (14.415)        | (8.707)         |
| <b>Result before tax</b>                                 | <b>3.540</b>    | <b>1.282</b>    |
| Stake in JV                                              | 0               | 0               |

| <b>SNK PRIMA CO. LTD.</b> | <b>30/09/07</b> | <b>30/09/06</b> |
|---------------------------|-----------------|-----------------|
| Non-current assets        | 19              | 59              |
| Current assets            | 125             | 131             |
| Non-current liabilities   | -               | -               |
| Current liabilities       | (1)             | -               |
| <b>Net assets</b>         | <b>143</b>      | <b>190</b>      |
| Revenues                  | -               | -               |
| Costs                     | (44)            | (89)            |
| <b>Result before tax</b>  | <b>(44)</b>     | <b>(89)</b>     |
| Stake in JV               | 1               | 1               |

(1) Information reclassified i.t.o IAS/IFRS

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

For more information on trends relative to companies of the Group, refer to **Chapter 4** of the **Report on Operations**.

**NOTE 9.4****Other Shareholdings**

The item, Other Shareholdings, remains unchanged with respect to the previous year.

The value of 750 thousand Euro refers to the shareholding in the company Electro Power Systems s.p.a., owned by the subsidiary PRIMA ELECTRONICS. During the year 2007, the company Electro Power Systems s.p.a. implemented a share capital increase for the entry of a new shareholder. This operation did not affect the number of undersigned shares which therefore remain unchanged (20,812).

The shareholding quota decreased from 6.34% to 5.37%.

The total amount of 52 thousand Euro—referring to the shareholding in the Sintesi Consortium and equal to 10% of the share capital—remained unchanged.

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

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

The shareholding was, in fact, completely written down given that the company was declared bankrupt by the Court of Turin on the dates 30/09 – 27/10/2003.

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

**NOTE 9.5**

Other financial assets totaling 1,133 thousand euro are reported in the following tables:

| <b>Other financial assets -</b>         |                |
|-----------------------------------------|----------------|
| <b>01/01/2006</b>                       | <b>258.484</b> |
| Acquisitions                            |                |
| Sales                                   |                |
| Revaluations                            | 9.515          |
| <b>01/01/2007</b>                       | <b>267.999</b> |
| Acquisitions                            |                |
| Sales                                   |                |
| Revaluations                            | 10.708         |
| <b>31/12/2007</b>                       | <b>278.707</b> |
| (Less non-current portion)              | (278.707)      |
| Current portion                         |                |
| Other financial assets, detail          |                |
| <b>UNLISTED SHARES</b>                  |                |
| Single-premium capitalization agreement | 278.707        |
| <b>TOTAL</b>                            | <b>278.707</b> |

This refers to a financial asset valued at fair value with changes in value recorded in the income statement. Reference is made to a capitalization policy with single premium and a duration of five years, undersigned on 08/09/04.

This amount was re-valuated on 31/12/07 by applying valuation measures of 4.2% for the days between the date of the last annual recurrence on 08/09/07 and 31/12/07. Up until 08/09/07, the revaluation was promptly implemented by applying the financial return realized by the fund (4.45%).

| <b>Other financial assets -</b>           |                |
|-------------------------------------------|----------------|
| <b>Financial fixed assets in progress</b> |                |
| <b>01/01/2006</b>                         | -              |
| Acquisitions                              |                |
| Sales                                     |                |
| Change in fair value                      |                |
| <b>01/01/2007</b>                         | -              |
| Acquisitions                              | 854.516        |
| Sales                                     |                |
| Change in fair value                      |                |
| <b>31/12/2007</b>                         | <b>854.516</b> |

During the course of the year, current financial fixed assets totaling 885 thousand Euro were recorded in reference to consulting and legal advisory services for the acquisition of the 100% shareholding in the Finnish company FINN-POWER Oy; the contract for this acquisition was stipulated on February 4<sup>th</sup>, 2008.

#### **NOTE 9.6**

| <b>Tax assets for prepaid taxes</b> | <b>31/12/07</b>  | <b>31/12/06</b>  |
|-------------------------------------|------------------|------------------|
| Initial balance                     | 7.525.805        | 6.946.898        |
| Change in the area of consolidation | 263.359          | 12.580           |
| Net changes in the financial yr.    | (2.364.763)      | 769.272          |
| Exchange differences                | (351.193)        | (202.945)        |
| <b>TOTAL</b>                        | <b>5.073.208</b> | <b>7.525.805</b> |

The change in the scope of consolidation primarily refers to the acquisition of the OSAI Group. Per quanto concerne le società italiane si è provveduto ad adeguare i conteggi sulla base delle nuove aliquote fiscali che entreranno in vigore dal 2008.

#### **NOTE 9.7**

##### **Other receivables**

This item totals 30 thousand Euro versus the 39 thousand as of 31/12/06.

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

**NOTE 9.8**

| <b>Inventories</b>                        | <b>31/12/07</b>   | <b>31/12/06</b>   |
|-------------------------------------------|-------------------|-------------------|
| Raw materials                             | 18.869.781        | 16.987.804        |
| (Provision for writedown of raw material: | (2.811.880)       | (2.758.456)       |
| Semi-finished products                    | 11.995.656        | 9.769.767         |
| Finished products                         | 15.399.209        | 10.516.205        |
| (Provision for writedown of finished pro  | (1.485.715)       | (645.119)         |
| Stock advances                            | -                 | -                 |
| <b>TOTAL</b>                              | <b>41.967.051</b> | <b>33.870.201</b> |

The warehouse as of 31/12/2007 reported significant increases for all items as a result of increasing business volumes for all companies of the group and the change in the scope of consolidation as of July 1<sup>st</sup>, 2007 as result of the inclusion of the Osai Group.

Movements in writedowns are as follows:

| <b>Provision for inventory writedown</b> | <b>Raw materials</b> | <b>Finished prod</b> |
|------------------------------------------|----------------------|----------------------|
| Balance 01/01/07                         | 2.758.456            | 645.119              |
| Utilizations                             | (22.932)             | (5.750)              |
| Allocations                              | 166.648              | 467.866              |
| Sums acquired through acquisitions       | 16.000               | 440.901              |
| Exchange differences                     | (106.292)            | (62.421)             |
| <b>Balance 31/12/07</b>                  | <b>2.811.880</b>     | <b>1.485.715</b>     |

**NOTE 9.9**

| <b>Trade receivables</b>              | <b>31/12/07</b>   | <b>31/12/06</b>   |
|---------------------------------------|-------------------|-------------------|
| Trade receivables                     | 54.240.634        | 40.303.952        |
| Provision for doubtful debts          | (2.916.812)       | (2.596.306)       |
| <b>Net trade receivables</b>          | <b>51.323.822</b> | <b>37.707.646</b> |
| Receivables-associated parties        | 379.963           | 1.403.352         |
| Prov.for doubtful debts-assoc.parties | -                 | (150.416)         |
| Loans issued to assoc. parties        | -                 | -                 |
| <b>TOTAL</b>                          | <b>51.703.785</b> | <b>38.960.582</b> |

The increase of 12,743 thousand Euro with respect to the previous year is primarily due to the significant increase in sales of all companies of the Group as well as the expansion of the scope of consolidation.

With regards to receivables due from correlated parties, a significant decrease was reported with respect to 31/12/2007; this was due to an effective credit collection action implemented with respect to the Chinese joint venture, Shenyang Prima Laser Machine.

**Movements in the allowance for doubtful accounts are as follows:**

| <b>Provision for doubtful debts</b> | <b>Customers</b> | <b>Assoc. Parties</b> |
|-------------------------------------|------------------|-----------------------|
| Balance 01/01/07                    | 2.596.306        |                       |
| Utilizations                        | (2.732)          |                       |
| Allocations                         | 149.641          |                       |
| Change in the area of consolidation | 219.226          |                       |
| Reclassifications                   | (45.629)         |                       |
| Exchange differences                |                  |                       |
| <b>Balance 31/12/07</b>             | <b>2.916.812</b> | <b>-</b>              |

**NOTE 9.10**

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**Other receivables**

This amount refers to 395 thousand Euro (1,231 thousand Euro as of 31/12/06) relative to contributions which have not yet been disbursed in connection with R&D contracts signed with the Ministry of University Studies and Scientific and Technological Research.

The residual amount of 2,169 thousand Euro (1,572 thousand Euro as of 31/12/06) refer to advance payments to suppliers in connection with orders for future deliveries as well as advances on travelling expenses disbursed to employees, caution money and accrued income and deferred expenses.

**NOTE 9.11**

| <b>Other tax assets</b>              | <b>31/12/07</b>  | <b>31/12/06</b>  |
|--------------------------------------|------------------|------------------|
| VAT credits                          | 2.482.475        | 696.291          |
| IRAP credits                         |                  | -                |
| Group corp.tax (IRES) credits        | 2.796.101        | 885.221          |
| Corp.Income Tax (IRPEG) - prior yrs. |                  | -                |
| Other tax receivables                | 95.090           | 62.189           |
| <b>TOTAL</b>                         | <b>5.373.666</b> | <b>1.643.701</b> |

The change was essentially attributable to tax advances for IRES (corporate income tax) and VAT credit accruing with respect to supplier invoices.

**NOTE 9.12**

|                                         | <b>31/12/2007</b> |                    | <b>31/12/2006</b> |                    |
|-----------------------------------------|-------------------|--------------------|-------------------|--------------------|
| <b>Derivative financial instruments</b> | <b>Assets</b>     | <b>Liabilities</b> | <b>Assets</b>     | <b>Liabilities</b> |
| IRS                                     | 25.902            |                    |                   | (6.675)            |
| Currency Option                         |                   |                    |                   |                    |
| Foreign currency future                 |                   |                    |                   |                    |
| Foreign currency forward purchase       |                   |                    |                   |                    |
| <b>TOTAL</b>                            | <b>25.902</b>     | <b>-</b>           | <b>-</b>          | <b>(6.675)</b>     |
| less non-current portion                |                   |                    |                   |                    |
| IRS                                     | 25.902            | -                  |                   | (6.071)            |
| Currency Option                         |                   |                    |                   |                    |
| Foreign currency future                 |                   |                    |                   |                    |
| Foreign currency forward purchase       |                   |                    |                   |                    |
| <b>Non-current portion</b>              | <b>25.902</b>     | <b>-</b>           | <b>-</b>          | <b>(6.071)</b>     |
| <b>Current portion</b>                  | <b>-</b>          | <b>-</b>           | <b>-</b>          | <b>(604)</b>       |

Derivative financial instruments as of 31/12/07 refer to two Interest Rate Swap contracts stipulated by the parent company in protection of interest rates relative to currently effective medium to long-term loans.

**NOTE 9.13**

| <b>Cash</b>                    | <b>31/12/07</b>   | <b>31/12/06</b>   |
|--------------------------------|-------------------|-------------------|
| Cash and cheques               | 27.553            | 414.734           |
| Bank accounts                  | 21.523.816        | 20.287.973        |
| Other short-term bank deposits |                   | -                 |
| <b>Total</b>                   | <b>21.551.369</b> | <b>20.702.707</b> |

This item totals 21,551 thousand Euro versus the 20,703 thousand Euro on 31/12/06 and is composed of the cash available within the company as well as liquid assets deposited in bank accounts.

The increase with respect to 31/12/06 is the result of improved management of current assets and cash flow generated by the companies of the Group.

## NOTE 9.14

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- Capital Stock

Share capital as of December 31<sup>st</sup>, 2007, fully underwritten and paid up, is composed of 4,600,000 ordinary shares with a nominal value of 2.5 Euro each, totaling Euro 11,500,000.

During the course of the year, there were no changes in the amount or composition of the share capital.

- Treasury shares

At the end of the year 2007, 3,000 treasury shares were reported within the financial statements, valued at the average weighted price of Euro 29.2934 for a total of 88 thousand Euro.

- Legal reserve

This item totals 2,300 thousand Euro and has not changed during the course of 2007. It is equal to one fifth of share capital.

- Other reserves

This item has a value of 17,019 thousand Euro and is composed as follows:

- ◊ Extraordinary reserve

This item totals 1,354 thousand Euro and, with respect to 31/12/06 (equal to 1,184 thousand Euro), increased by 170 thousand Euro as a result of the allocation of the net income of 2006.

- ◊ Share premium reserve

This item is generated by the price premium on the issue of new shares with respect to the nominal value equal to Euro 2.5.

The amount equal to 15,665 thousand Euro on 31/12/2007 did not change with respect to the previous year.

- Translation reserve

This item was equal to 2,560 thousand Euro (639 thousand Euro on 31/12/2006) and is due to the application of the average exchange rate of the year and the year-end exchange rate to the items of the income statement and balance sheet, respectively, when converting financial statement items expressed in currencies which are not legal tender in the country in question (PRIMA North America Inc., PRIMA Scandinavia AB, PRIMA Industrie UK Ltd., PRIMA Polska Sp.z.o.o., Osai USA LLC e Osai UK Ltd.).

- Earnings carried forward

This amount, which totals 9,304 thousand Euro (1,308 thousand Euro on 31/12/2006) includes the results of previous years of consolidated companies as well as the change in the scope of consolidation and the capital losses and gains generated as a result of the acquisition or transfer of treasury shares.

In addition, the amounts relative to differences in accounting methods on the date of IFRS transition are also included; these refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

The increase totaled 7,996 thousand Euro, as detailed in the statement "Movements in Consolidated Shareholders' Equity on December 31st, 2006 and December 31st, 2007".

- Earnings for the year

This item includes net income of the year, totaling 13,728 thousand Euro (13,706 thousand Euro on 31/12/2006).

- Minority interests

The item on 31/12/2007 totals 237 thousand Euro and includes the result pertaining to third party shareholders. The increase was equal to 177 thousand Euro as a result of the change in scope of consolidation. The increase was equal to 177 thousand Euro as a result of the change in scope of consolidation.



## NOTE 9.15

### Loans

For additional comments, refer to the description in **Chapter Three** of the **Report on Operations** relative to trends in the Net Financial Position.

| Payables due to banks and other loans                 | 31/12/07          | 31/12/06          |
|-------------------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                        |                   |                   |
| Bank overdrafts                                       | 359.273           | 413.297           |
| Short-term payables - recourse discount transactions  | -                 | 273.699           |
| Financial leasing                                     | 199.674           | 199.663           |
| Short-term payables for bank loans                    | 4.134.939         | 4.257.487         |
| Short-term payables for other loans                   | 88.562            | 87.135            |
| Short-term payables-ex OSAL s/holders                 | 795.000           | -                 |
| <b>Total</b>                                          | <b>5.577.448</b>  | <b>5.231.281</b>  |
| <b>Non-current</b>                                    |                   |                   |
| Long-term payables for recourse discount transactions | -                 | 110.317           |
| Financial leasing                                     | 268.842           | 468.516           |
| Long-term payables for bank loans                     | 13.805.079        | 10.622.815        |
| Long-term payables for other loans                    | 1.131.941         | 1.455.385         |
| <b>Total</b>                                          | <b>15.205.862</b> | <b>12.657.033</b> |

| Payables due to banks and other loans, movement       | Balance 31/12/06  | Change in the area of consolidation | Creation         | Repayments         | Reclass. ( \$ )    | Δ exchange | Δ net          | Balance 31/12/07  |
|-------------------------------------------------------|-------------------|-------------------------------------|------------------|--------------------|--------------------|------------|----------------|-------------------|
| <b>Current</b>                                        |                   |                                     |                  |                    |                    |            |                |                   |
| Bank overdrafts                                       | 413.297           | (244.364)                           |                  |                    |                    |            | 190.340        | 359.273           |
| S-term payables-Sabatini discount transactions        | 273.699           |                                     |                  | (384.016)          | 110.317            |            |                | -                 |
| Financial leasing                                     | 199.663           |                                     |                  | (199.663)          | 199.674            |            |                | 199.674           |
| Short-term payables for bank loans                    | 4.257.487         | 210.861                             | 421.053          | (4.676.432)        | 3.921.970          |            |                | 4.134.939         |
| Short-term payables for other loans                   | 87.135            |                                     |                  | (87.135)           | 88.562             |            |                | 88.562            |
| Short-term payables-ex OSAL s/holders                 | -                 |                                     | 795.000          |                    |                    |            |                | 795.000           |
| <b>Total</b>                                          | <b>5.231.281</b>  | <b>(33.503)</b>                     | <b>1.216.053</b> | <b>(5.347.246)</b> | <b>4.320.523</b>   | <b>-</b>   | <b>190.340</b> | <b>5.577.448</b>  |
| <b>Non-current</b>                                    |                   |                                     |                  |                    |                    |            |                |                   |
| Long-term payables for Sabatini discount transactions | 110.317           |                                     |                  |                    | (110.317)          |            |                | -                 |
| Financial leasing                                     | 468.516           | -                                   |                  |                    | (199.674)          |            |                | 268.842           |
| Long-term payables for bank loans                     | 10.622.815        | 632.301                             | 6.578.947        | (107.014)          | (3.921.970)        |            |                | 13.805.079        |
| Long-term payables for other loans                    | 1.455.385         |                                     |                  | (234.882)          | (88.562)           |            |                | 1.131.941         |
| <b>Total</b>                                          | <b>12.657.033</b> | <b>632.301</b>                      | <b>6.578.947</b> | <b>(341.896)</b>   | <b>(4.320.523)</b> | <b>-</b>   | <b>-</b>       | <b>15.205.862</b> |

( \$ )

*this refers to the re-classification of quotas expiring during the course of 2007 from medium to long term to short-term. Debt due to ex-Osai shareholders represents the earn out acknowledged with respect to the ex- shareholders of the Osai group on the basis of the result of the 2007 financial statements which will be liquidated by April 2008.*

**NOTE 9.16**

| <b>Employee benefits</b>       | <b>31/12/07</b>  | <b>31/12/06</b>  |
|--------------------------------|------------------|------------------|
| Employees' Severance Fund      | 6.881.428        | 4.900.947        |
| Fidelity premium               | 679.935          | 643.289          |
| <b>Total employee benefits</b> | <b>7.561.363</b> | <b>5.544.236</b> |

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

Following the changes to the TFR as per Law 27 December 2006 (Budget 2007) and subsequent Decrees and Regulations issued in early 2007, for the purpose of IAS we have considered only the liability concerning the TFR matured and held by the company, as the amount not yet matured was credited to a separate account (complementary pension fund FONDINPS). As a consequence of these payments the company will have no other liabilities in connection with future employee activity.

Also for those who have explicitly decided to keep the TFR within the company, and therefore subject to the regulations in force, the TFR yet to mature starting from January 1<sup>st</sup>, 2007, was paid into the Treasurt Fund managed by INPS. This fund, based on art. 1, comma 5, of Budget 2007 ensures that private employees qualify for TFR as per art. 2120 of the Civil Code, for the part equivalent to payments made".

Thus, it was necessary to carry out actuary computations excluding the part concerning future salary increases. The difference resulting from the new versus the previous calculation, amounting to 605.000 euro, was considered as curtailment as defined in para. 109 of IAS 19 and consequently accounted as venue in the income statement of the year.

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

Here are the movements of this item during the year:

| <b>Employees' Severance Fund</b>                       | <b>31/12/07</b>  | <b>31/12/06</b>  |
|--------------------------------------------------------|------------------|------------------|
| <b>Opening liabilities</b>                             | <b>4.900.947</b> | <b>4.391.884</b> |
| Severance indemnities paid during period               | (430.395)        | (565.331)        |
| Other movements                                        | 12.812           | 83.840           |
| Reduction ex reform                                    | (604.638)        |                  |
| Change in the area of consolidation                    | 2.676.159        | 108.306          |
| Ptn of Severance indemnities trf to Cometa & Previndai |                  | 108.268          |
| Employee benefit costs on current services             | 57.466           | 583.657          |
| Financial expenses                                     | 269.077          | 190.323          |
| <b>Total recorded in Income Statement</b>              | <b>(278.095)</b> | <b>773.980</b>   |
| <b>Total closing liabilities - Employees' Sev</b>      | <b>6.881.428</b> | <b>4.900.947</b> |

| <b>Fidelity Premium</b>                             | <b>31/12/07</b>  | <b>31/12/06</b>  |
|-----------------------------------------------------|------------------|------------------|
| <b>Opening liabilities</b>                          | 643.289          | 544.810          |
| Decreases                                           | (10.957)         | (25.092)         |
| Increases for acquisitions                          |                  | -                |
| Allocations                                         | 44.367           | -                |
| Financial expenses                                  | 3.236            | 123.571          |
| <b>Total recorded in Income Statement</b>           | <b>36.646</b>    | <b>123.571</b>   |
| <b>Total closing liabilities - Fidelity Premium</b> | <b>679.935</b>   | <b>643.289</b>   |
| <b>Total employee benefits</b>                      | <b>7.561.363</b> | <b>5.544.236</b> |

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

| <b>Actuarial assumptions</b>                   | <b>31/12/07</b> | <b>31/12/06</b> |
|------------------------------------------------|-----------------|-----------------|
| <b>Prima Industrie &amp; Prima Electronics</b> |                 |                 |
| Annual discount rate                           | 5,5%            | 4,6%            |
| Annual inflation rate                          | 2,0%            | 2,0%            |
| Annual pay increase rate                       | -               | 3,5%            |
| Annual rate of increase of severance fund      | 3,0%            | 3,0%            |
| <b>Osai &amp; Techmark</b>                     |                 |                 |
| Annual discount rate                           | 5,45%           |                 |
| Annual inflation rate                          | 2,0%            |                 |
| Annual pay increase rate                       | 2,0%            |                 |
| Annual rate of increase of severance fund      | 3,0%            |                 |

The demographic hypotheses used for actuarial valuation include:

- the probability of death as estimated by ISTAT in 2002, divided by sex;
- the probability of incapacity adopted in the INPS model for projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 5% to 7% depending on the company;
- probability of advances with an annual rate of 3%.

#### **NOTE 9.17**

| <b>Deferred tax liabilities</b>     | <b>31/12/07</b>  | <b>31/12/06</b>  |
|-------------------------------------|------------------|------------------|
| Initial balance                     | 2.384.507        | 2.502.156        |
| Change in the area of consolidation | 1.183.407        | 2.822            |
| Net changes in the financial yr.    | (1.662.061)      | (88.071)         |
| Exchange differences                | (109)            | (32.400)         |
| <b>Total</b>                        | <b>1.905.744</b> | <b>2.384.507</b> |

As regards the Italian companies, accounts were adjusted on the basis of the new tax rates which will be effective as from 2008.

**NOTE 9.18**

| Medium/long-term provisions for risks | Cust. agent ind. prov. | Prov. for litigation risks | Other minor | Restruct. prov | OTHER | TOTAL          |
|---------------------------------------|------------------------|----------------------------|-------------|----------------|-------|----------------|
| <b>1 January 2006</b>                 | <b>29.110</b>          | -                          | -           | -              | -     | <b>29.110</b>  |
| Income statement:                     | -                      | -                          | -           | -              | -     | -              |
| - Allocations                         | 5.500                  | -                          | -           | -              | -     | <b>5.500</b>   |
| - Transfers back of excess provs.     | -                      | -                          | -           | -              | -     | -              |
| Utilizations in the period            | (1.110)                | -                          | -           | -              | -     | <b>(1.110)</b> |
| Sums acquired through acquisitions    | -                      | -                          | -           | -              | -     | -              |
| Exchange differences                  | -                      | -                          | -           | -              | -     | -              |
| <b>31 December 2006</b>               | <b>33.500</b>          | -                          | -           | -              | -     | <b>33.500</b>  |
| Income statement:                     | -                      | -                          | -           | -              | -     | -              |
| - Allocations                         | 10.035                 | -                          | -           | -              | -     | <b>10.035</b>  |
| - Transfers back of excess provs.     | -                      | -                          | -           | -              | -     | -              |
| Utilizations in the period            | -                      | -                          | -           | -              | -     | -              |
| Sums acquired through acquisitions    | 700                    | -                          | -           | -              | -     | <b>700</b>     |
| Exchange differences                  | -                      | -                          | -           | -              | -     | -              |
| <b>31 December 2007</b>               | <b>44.235</b>          | -                          | -           | -              | -     | <b>44.235</b>  |

| Short-term provisions for risks    | Guarantee fund   | Prov. for litigation risks | Profit sharing prov. | Restruct. prov | OTHER          | TOTAL              |
|------------------------------------|------------------|----------------------------|----------------------|----------------|----------------|--------------------|
| <b>1 January 2006</b>              | <b>3.377.994</b> | -                          | <b>46.000</b>        | <b>144.875</b> | <b>206.850</b> | <b>3.775.719</b>   |
| Income statement:                  | -                | -                          | -                    | -              | -              | -                  |
| - Allocations                      | 3.396.794        | -                          | -                    | -              | 6.488          | <b>3.403.282</b>   |
| - Transfers back of excess provs.  | -                | -                          | -                    | -              | -              | -                  |
| Utilizations in the period         | (2.335.846)      | -                          | (11.000)             | -              | -              | <b>(2.346.846)</b> |
| Sums acquired through acquisitions | -                | -                          | -                    | -              | -              | -                  |
| Exchange differences               | (122.258)        | -                          | -                    | -              | -              | <b>(122.258)</b>   |
| <b>31 December 2006</b>            | <b>4.316.684</b> | -                          | <b>35.000</b>        | <b>144.875</b> | <b>213.338</b> | <b>4.709.897</b>   |
| Income statement:                  | -                | -                          | -                    | -              | -              | -                  |
| - Allocations                      | 3.231.103        | 100.000                    | 55.000               | -              | 252.700        | <b>3.638.803</b>   |
| - Transfers back of excess provs.  | -                | -                          | -                    | -              | -              | -                  |
| Utilizations in the period         | (2.635.928)      | -                          | (10.000)             | (144.875)      | (51.372)       | <b>(2.842.175)</b> |
| Sums acquired through acquisitions | 132.360          | -                          | -                    | -              | -              | <b>132.360</b>     |
| Exchange differences               | (168.655)        | -                          | -                    | -              | -              | <b>(168.655)</b>   |
| <b>31 December 2007</b>            | <b>4.875.564</b> | <b>100.000</b>             | <b>80.000</b>        | -              | <b>414.666</b> | <b>5.470.230</b>   |

**Guarantee fund**

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

**Profit Sharing Fund**

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

During 2007, the fund was partially used for contractually established payments to employees.

### Restructuring provision

This fund derives from the acquisition of the MATRA division and refers to sums set aside for a staff reduction plan fully used up during 2007.

### Provision for litigation risks

This makes provision for legal proceedings initiated by the parent company against a French customer.

### Other Risk Provisions

This refers mainly to future commitments of PRIMA INDUSTRIE GmbH for legal expenses and employee costs for unused holidays and overtime, amounting to 304.000 euro, and of Osai s.p.a. for a risk fund amounting to 110.000 euro.

### NOTE 9.19

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

| Trade and other payables             | 31/12/07          | 31/12/06          |
|--------------------------------------|-------------------|-------------------|
| Trade payables                       | 33.727.779        | 26.054.651        |
| Amounts due to assoc.parties         |                   |                   |
| <b>Total trade payables</b>          | <b>33.727.779</b> | <b>26.054.651</b> |
| Advances from customers              | 10.545.432        | 7.387.989         |
| <b>Total advances from customers</b> | <b>10.545.432</b> | <b>7.387.989</b>  |
| Social security payables             | 2.176.455         | 1.445.012         |
| Amounts due to employees             | 4.172.425         | 2.932.765         |
| Other short-term payables            | 622.245           | 465.321           |
| Accrued liab.&deferred income        | 2.911.950         | 1.062.340         |
| <b>Total Other payables</b>          | <b>9.883.075</b>  | <b>5.905.438</b>  |

The increase in payables to suppliers is to be attributed to the increased volume of aactivity.

“Advances from customers” contains advances on orders for machines that have not been delivered, and advances generated by application of IAS18 for machines that have been delivered but not yet accepted by the end customer and thus cannot be entered among revenues. The increase compared to 2006 is due mainly to this second category.

### NOTE 9.20

This item totals 7,977 thousand Euro (5.066 thousand Euro at 31/12/06) and includes:

| Tax liabilities for current taxes       | 31/12/07         | 31/12/06         |
|-----------------------------------------|------------------|------------------|
| VAT due by foreign companies & branches |                  |                  |
|                                         | 983.668          | 815.383          |
| Group corporate tax (IRES)              | 5.726.378        | 2.948.291        |
| Regional Trade Tax (IRAP)               | 246.023          | 279.875          |
| Income tax deductions (IRPEF)           | 569.030          | 408.163          |
| Other taxes & duties                    | 451.716          | 614.733          |
| <b>TOTAL</b>                            | <b>7.976.815</b> | <b>5.066.445</b> |

The increase is mainly due to Group corporate tax (IRES) liabilities, which went from 2,948 thousand Euro at 31/12/2006 to 5,726 thousand Euro at 31/12/2007.

This increase was generated by the increase in profits and because the subsidiary company USA PRIMA North America was no longer able to take advantage of prior losses.

#### NOTE 9.21

| Other operating income             | 31/12/07         | 31/12/06         |
|------------------------------------|------------------|------------------|
| Grants for research projects       | 163.600          | 838.200          |
| Income for R&D activities          | 550.000          | -                |
| Extraordinary income               | 332.334          | 471.706          |
| Insurance refunds                  | 10.941           | 12.833           |
| Income not traceable to TFR reform | 604.638          | -                |
| Other                              | 898.534          | 321.933          |
| <b>TOTAL</b>                       | <b>2.560.047</b> | <b>1.644.672</b> |

The research grants recorded in the 2007 Income Statement relate to the portions of forgivable loans for research and development, accrued during 2007, made to PRIMA INDUSTRIE for the PAMELA project (€43.000) and the RESALT project (€120.000).

Non-recurring revenue for €605.000 are to be attributed to the Italian companies and refer to the difference resulting from changes in TFR regulations, which in the actuary computation exclude the part covering future salary increases.

Revenue for Research and Development activity amounting to €550.000 refers to work undertaken for Consorzio Sintesi on Program Contract for the Ministry for Industry – Apulia Region.

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

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

#### NOTE 9.22

##### Increases for internal work

Capitalization for increases for internal work was €239.000 in 2007 against €138.000 in 2006.

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

**NOTE 9.23**

| <b>Personnel costs</b>            | <b>31/12/07</b>   | <b>31/12/06</b>   |
|-----------------------------------|-------------------|-------------------|
| Salaries and wages                | 27.409.356        | 21.649.303        |
| Social security contributions     | 7.890.623         | 6.924.097         |
| Ptn of Employees severance indemn | 57.467            | 691.925           |
| Pension fund provisions           | 1.018.774         | 72.794            |
| Fidelity Premium                  | 33.410            | 109.605           |
| Other costs                       | 787.074           | 628.260           |
| <b>TOTAL</b>                      | <b>37.196.704</b> | <b>30.075.984</b> |

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

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

**NOTE 9.24**

| <b>Depreciation</b>     | <b>31/12/07</b>  | <b>31/12/06</b>  |
|-------------------------|------------------|------------------|
| Tangible fixed assets   | 1.293.061        | 1.158.728        |
| Intangible fixed assets | 231.081          | 171.658          |
| <b>Total</b>            | <b>1.524.142</b> | <b>1.330.386</b> |

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

Intangible assets were amortized on the basis of their future useful life.  
For more details, see Chapter 6, Description of Accounting Principles.

**NOTE 9.25**

| <b>Other operating costs</b>        | <b>31/12/07</b>   | <b>31/12/06</b>   |
|-------------------------------------|-------------------|-------------------|
| External manufacturing              | 12.259.603        | 7.550.097         |
| Travel expenses                     | 4.877.306         | 3.852.737         |
| Transport and custom duties         | 3.052.546         | 2.633.031         |
| Commissions                         | 2.808.085         | 2.275.120         |
| Consultancy fees                    | 4.974.503         | 2.703.285         |
| Temporary work                      | 529.362           | 506.540           |
| Advertising                         | 1.632.358         | 919.371           |
| Third-party maintenance             | 1.507.419         | 711.135           |
| Utilities                           | 840.211           | 726.029           |
| Postal & telecommunication expenses | 702.470           | 535.019           |
| Insurance                           | 664.231           | 478.552           |
| Directors' remuneration             | 977.436           | 799.254           |
| Statutory auditors' remuneration    | 124.104           | 129.114           |
| Other service expenses              | 1.539.759         | 1.869.996         |
| Rent                                | 1.383.073         | 1.309.323         |
| Hire & other third-party costs      | 1.089.601         | 699.231           |
| Guarantee fund provisions           | 544.049           | 1.082.905         |
| Provision for doubtful debts        | 861.112           | 752.375           |
| Other provisions (utilisations)     | (61.224)          | 21.347            |
| Extraordinary liabilities           | 378.959           | 485.996           |
| Other operating costs               | 594.758           | 1.140.711         |
| <b>Total</b>                        | <b>41.279.721</b> | <b>31.181.168</b> |

The 10.099 thousand Euro increase in operating costs compared to 31/12/06 is mainly due to the increased volume of sales in 2007.

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

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

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

*Remuneration for Directors and Statutory Auditors* refers to €977,000 in fees to members of the Board of Directors and €124,000 in fees for members of the Board of Auditors of the parent group (in accordance with article 38 of Legislative Decree 127/91). For more information see the table included in the **Supplementary Notes to the Financial Statements of the Parent Company**, and required by article 78 of CONSOB Issuers Regulation.



**NOTE 9.26**

| <b>Financial income and expenses</b>      | <b>31/12/07</b>    | <b>31/12/06</b>    |
|-------------------------------------------|--------------------|--------------------|
| Expenses                                  |                    |                    |
| Interest on short-term bank loans         | (50.874)           | (105.921)          |
| Interest on M/L-term loans                | (796.763)          | (575.631)          |
| Interest and trade allowances             | (122.488)          | (322.318)          |
| Interest on leasing agreements            | (42.182)           | (39.053)           |
| Interest as per IAS 19                    | (272.313)          | (190.684)          |
| Writedown of derivatives                  | (6.165)            | (47.054)           |
| Other                                     | (227.334)          | (299.346)          |
| <b>Total financial expenses</b>           | <b>(1.518.119)</b> | <b>(1.580.007)</b> |
| Income                                    |                    |                    |
| Interest received on bank accounts        | 509.645            | 222.822            |
| Interest and trade allowances received    | 139.534            | 379.319            |
| Interest on securities                    | 10.708             | 9.515              |
| Income from derivatives                   | 32.577             | 4.700              |
| Other                                     | 28.506             | 50.733             |
| <b>Total financial income</b>             | <b>720.970</b>     | <b>667.089</b>     |
| Negative forex differences                | (790.753)          | (672.824)          |
| Positive forex differences                | 431.998            | 685.452            |
| <b>Total foreign exchange differences</b> | <b>(358.755)</b>   | <b>12.628</b>      |
| <b>Net financial income</b>               | <b>(1.155.904)</b> | <b>(900.290)</b>   |

**NOTE 9.27**

| <b>Net profit/loss of associated companies &amp; Joint Ventures</b> | <b>31/12/07</b> | <b>31/12/06</b> |
|---------------------------------------------------------------------|-----------------|-----------------|
| Shenyang Prima Laser Machine Co. Ltd.                               | (345.659)       | (239.984)       |
| Shanghai Unity Prima Laser Machinery Co. Ltd.                       | 838.153         | 295.038         |
| SNK Prima Co. Ltd.                                                  | (19.908)        | (44.670)        |
| <b>Net profit/loss of associated companies &amp; Joint Ventures</b> | <b>472.586</b>  | <b>10.384</b>   |

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

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

**NOTE 9.28**

| <b>Current tax &amp; deferred taxes</b> | <b>31/12/07</b>    | <b>31/12/06</b>    |
|-----------------------------------------|--------------------|--------------------|
| Current                                 |                    |                    |
| IRAP (Regional trade tax)               | (1.439.404)        | (1.187.117)        |
| IRES (Corporation tax)                  | (5.681.407)        | (2.984.980)        |
| Foreign                                 | (838.808)          | (632.739)          |
| Prepaid/deferred                        | (1.194.690)        | 948.057            |
| <b>Total</b>                            | <b>(9.154.309)</b> | <b>(3.856.779)</b> |

For Italian companies tax calculations do not include tax credits for research and development as per paras. 280, 281, 282 art. 1 L. 296 dated 27/12/2006 (Budget 2007) as the associated ministerial decree has not yet been published in the Official Journal.

| Reconciliation between ordinary and actual tax rates                   | Taxable amount   | Income tax   | Rate %                    |
|------------------------------------------------------------------------|------------------|--------------|---------------------------|
| RESULT BEFORE TAX (excluding OSAI Group)                               | 24.691           | 8.176        | 33,11                     |
| INCREASING PERMANENT DIFFERENCES                                       | 1.473            | 485          | 1,96                      |
| DECREASING PERMANENT DIFFERENCES                                       | (2.754)          | (909)        | (3,68)                    |
| OTHER TEMPORARY DIFFERENCES                                            | 2.039            | 666          | 2,70                      |
| <b>TAXABLE AMOUNT</b>                                                  | <b>25.449</b>    | <b>8.418</b> | <b>34</b>                 |
| UTILIZATION OF PREVIOUS LOSSES                                         | (4.341)          | (1.452)      | (5,88)                    |
| FEDERAL TAXES ETC.                                                     | (7)              | (505)        |                           |
| <b>TAXES FOR THE FIN. YR.</b>                                          | <b>21.101</b>    | <b>6.461</b> | <b>26,17</b>              |
| <b>TOTAL IRES &amp; FOREIGN</b>                                        | <b>-</b>         | <b>6.461</b> | <b>26</b>                 |
| <b>OSAI Group</b>                                                      |                  | <b>59</b>    |                           |
| <b>TOTAL</b>                                                           |                  | <b>6.520</b> |                           |
|                                                                        | Taxable amount   | Rate %       | IRAP (Regional trade tax) |
| VALUE OF PRODUCTION                                                    | 144.624          |              |                           |
| INCREASES/DECREASES                                                    | 1.850            |              |                           |
| <b>TOTAL POSITIVE ITEMS</b>                                            | <b>146.474</b>   |              |                           |
| COSTS OF PRODUCTION (EXCLUDING LABOUR COSTS)                           | (106.507)        |              |                           |
| INCREASES/DECREASES                                                    | 3.492            |              |                           |
| <b>TOTAL NEGATIVE ITEMS</b>                                            | <b>(103.015)</b> |              |                           |
| TOTAL NET VALUE OF PRODUCTION                                          | 43.459           |              |                           |
| DEDUCTION OF PERSONNEL COSTS, R&D, ETC.                                | (7.687)          |              |                           |
| TAXABLE AMOUNT                                                         | 35.772           |              |                           |
| DEDUCTION FOR FOREIGN COMPENSATION                                     | (2.579)          |              |                           |
| <b>TAXES FOR THE FIN. YR.</b>                                          | <b>33.193</b>    | <b>4,25</b>  | <b>1.410,70</b>           |
| <b>TOTAL IRAP (only for companies incorporated i.t.o. Italian law)</b> |                  |              | <b>1.410,70</b>           |
| <b>OSAI Group</b>                                                      |                  |              | <b>28,00</b>              |
| <b>TOTAL</b>                                                           |                  |              | <b>1.438,70</b>           |

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

Concerning the OSAI Group, the tax returns of which was calculated to the second semester of 2007, it was not thought significant to indicate theoretical tax payable and changes in increases/reductions separately.

## NOTE 9.29 EARNINGS PER SHARE

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

**NOTE 9.30**

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

| <b>Contractual Commitments at 31/12/07</b>     | <b>Duration</b>           | <b>Thousands of EURO</b> | <b>Thousands of USD</b> | <b>Thousands of SEK</b> | <b>Thousands of GBP</b> |
|------------------------------------------------|---------------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| PRIMA INDUSTRIE S.p.A: Collegno plant          | 01/10/2002-30/09/2008     | 150                      |                         |                         |                         |
| PRIMA INDUSTRIE S.p.A: Collegno Offices        | 01/10/2007-30/09/2013     | 773                      |                         |                         |                         |
| PRIMA North America Inc.: Chicopee plant       | 01/02/2003-28/02/2018     |                          | 8.015                   |                         |                         |
| PRIMA North America Inc.: Champlin plant       | 01/02/2003-30/04/2008     |                          | 64                      |                         |                         |
| PRIMA INDUSTRIE GmbH: Dietzenbach offices      | 01/03/2006-28/02/2011     | 376                      |                         |                         |                         |
| PRIMA SCANDINAVIA AB: Goteburg                 | 01/11/2006-31/10/2009     |                          |                         | 3.089                   |                         |
| PRIMA INDUSTRIE Polska Sp.z.oo: Balice offices | 01/01/2007 - undetermined |                          |                         |                         |                         |
| OSAI S.p.A.: Padova warehouse                  | 01/06/2003-31/05/2008     | 2                        |                         |                         |                         |
| OSAI S.p.A.: Anzola dell'Emilia offices        | 01/03/2006-28/02/2011     | 38                       |                         |                         |                         |
| OSAI USA: Bloomfield plant                     | 01/06/2007-31/05/2012     |                          | 196                     |                         |                         |
| OSAI UK Ltd.: Milton Keynes offices            | expiry 31/03/2008         |                          |                         |                         | 5                       |
| <b>TOTAL</b>                                   |                           | <b>1.339</b>             | <b>8.275</b>            | <b>3.089</b>            | <b>5</b>                |
| Within 1 year                                  |                           | 417                      | 833                     | 1.685                   | 5                       |
| Beyond 1 year                                  |                           | 922                      | 7.442                   | 1.404                   |                         |
| <b>TOTAL</b>                                   |                           | <b>1.339</b>             | <b>8.275</b>            | <b>3.089</b>            | <b>5</b>                |

## NOTE 9.31

### Transactions with associated parties

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

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

**Period: 1/01/07 to 31/12/07**

| Transactions with associated parties         | SHENYANG PRIMA LASER MACHINE CO.LTD | SHANGHAI UNITY PRIMA LASER MACH. CO. LTD | SNK PRIMA CO. LTD | WHUAN OVL CONVERGENT | STRATEGIC MANAGEMENT | TOTAL              |
|----------------------------------------------|-------------------------------------|------------------------------------------|-------------------|----------------------|----------------------|--------------------|
| RECEIVABLES AT 31/12/2006                    | 1,209,586                           | -                                        | 660               | 379,651              | -                    | <b>1,589,897</b>   |
| RECEIVABLES AT 31/12/2007                    | 379,963                             | -                                        | -                 | -                    | -                    | <b>379,963</b>     |
| PAYABLES AT 31/12/2006                       | -                                   | -                                        | -                 | -                    | (165,937)            | <b>165,937</b>     |
| PAYABLES AT 31/12/2007                       | -                                   | -                                        | -                 | -                    | (286,738)            | <b>286,738</b>     |
| REVENUES 01/01/01 - 31/12/2007               | 661,358                             | 34,773                                   | -                 | 452,913              | -                    | <b>1,149,044</b>   |
| COSTS 01/01/01 - 31/12/2007                  | -                                   | -                                        | -                 | -                    | 1,743,572            | <b>1,743,572</b>   |
| CHANGES IN RECEIVABLES 01/01/01 - 31/12/2007 | (829,623)                           | -                                        | (660)             | (379,651)            | -                    | <b>(1,209,934)</b> |
| CHANGES IN PAYABLES 01/01/01 - 31/12/2007    | -                                   | -                                        | -                 | -                    | (120,801)            | <b>(120,801)</b>   |

## NOTE 9.32

### Significant non-recurring events

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

## NOTE 9.33

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

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

## NOTE 9.34

### Net Financial Position

The breakdown of the Net Financial Position is provided below.

Kindly refer to the appropriate section of the Directors' Report on Operations for the relevant comments.

|                                                                    | values in thousands of euro |                 |
|--------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                    | 31/12/07                    | 31/12/06        |
| A CASH                                                             | 21.551                      | 20.703          |
| B OTHER CASH EQUIVALENTS                                           | 279                         | 268             |
| C SECURITIES HELD FOR TRADING                                      | 0                           | 0               |
| <b>D CASH (A+B+C)</b>                                              | <b>21.830</b>               | <b>20.971</b>   |
| <b>E CURRENT FINANCIAL RECEIVABLES</b>                             | <b>-</b>                    | <b>-</b>        |
| F CURRENT BANK LOANS                                               | 359                         | 413             |
| G CURRENT PORTION OF NON-CURRENT INDEBTEDNESS                      | 4.135                       | 4.258           |
| H OTHER CURRENT FINANCIAL PAYABLES                                 | 1.083                       | 561             |
| <b>I CURRENT FINANCIAL INDEBTEDNESS (F+G+H) (LIQUID FUNDS)</b>     | <b>5.577</b>                | <b>5.232</b>    |
| <b>J CURRENT NET FINANCIAL INDEBTEDNESS (LIQUID FUNDS) (I-E-D)</b> | <b>(16.253)</b>             | <b>(15.739)</b> |
| K NON-CURRENT BANK LOANS                                           | 13.805                      | 10.623          |
| L BONDS ISSUED                                                     | 0                           | 0               |
| M OTHER NON-CURRENT PAYABLES                                       | 1.401                       | 2.040           |
| N OTHER NON-CURRENT RECEIVABLES                                    | 26                          |                 |
| <b>O NON-CURRENT FINANCIAL INDEBTEDNESS (K+L+M-N)</b>              | <b>15.180</b>               | <b>12.663</b>   |
| <b>P NET FINANCIAL INDEBTEDNESS (J+N)</b>                          | <b>(1.073)</b>              | <b>(3.076)</b>  |

Some of the medium-term loans in existence provide for covenants, normally based on the ratio between the Net Financial Position and EBITDA and on the ratio between the Net Financial Position and Shareholders' Equity. In this respect on 31/12/2007 the Group fully complies with *covenants*.

#### Information ex art. 149-duodecies of Consob Regulations - GRUPPO PRIMA INDUSTRIE

The following table, issued according to ex art.149-duodecies Consob regulations, evidences the compensation for year 2007 for audit works and for those activities, not specifically linked to audit works but done by the audit firm.

| (thousand euro)       | Company Name                  | Addresses      | Compensation for year 2007 |
|-----------------------|-------------------------------|----------------|----------------------------|
| <b>Audit works</b>    | PricewaterhouseCoopers S.p.A. | Parent Company | 80                         |
|                       | PricewaterhouseCoopers S.p.A. | Subsidiaries   | 49                         |
| <b>Other services</b> | PricewaterhouseCoopers S.p.A. | Subsidiaries   | 162                        |
| <b>Total</b>          |                               |                | 291                        |

**Certification of Consolidated Financial Statements at 31/12/2007 as per art. 81-ter of Consob Regulations No.11971 dated May 14, 1999 as amended**

1. The undersigned Gianfranco Carbonato, Managing Director, and Massimo Ratti, Executive responsible for Company Accounts of PRIMA INDUSTRIE S.p.A. confirm, also in view of art. 154-bis, clause s 3 and 4, of the Decree of February 24, 1998, No. 58:

- the adequacy, in relation to the nature of the enterprise (also taking into account any changes occurring during the period) and
- the actual implementation

of the administrative and accounting procedures for the formulation of the consolidated financial statements at 31/12/2007.

2. In this connection we represent that on 28/06/2007 the Company nominated the Executive responsible for Accounts, who initiated updating and any integration deemed necessary to the administrative and accounting procedures for the formulation of the Consolidated Financial Statements, also in view of the fact that 2007 was characterized by a significantly increased consolidation perimeter owing to both the setting-up of new subsidiaries abroad and the acquisition of the OSAI Group.

Updating and integration are continuing during 2008.

3. We also certify that the Consolidated Financial Statements to 31/12/2007:

- a) reflects the situation as described in accounting documentation;
- b) is in line with the international accounting principles issued by the International Accounting Standards Board and adopted by the European Commission as per art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002, and according to art. 9 of Decree 38/2005, as far as is known, offers a true and correct representation of the assets and economic and financial position of the enterprise.

Date: 27 March 2008

Signed by the competent Administrative Executive

 .....

Signed by Executive responsible for Company Accounts

 .....



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

- **10. FINANCIAL STATEMENTS AT 31 DECEMBER 2007 ≈  
ACCOUNTING STATEMENTS**
-

**FINANCIAL STATEMENTS AT DECEMBER 31, 2007**  
**BALANCE SHEET AT 31 DECEMBER 2007 AND 31 DECEMBER 2006**

| <b>VALUES IN EURO</b>                                      | <b>Note</b> | <b>31/12/07</b>    | <b>31/12/06</b>   |
|------------------------------------------------------------|-------------|--------------------|-------------------|
| Tangible fixed assets                                      | 12.1        | 3.587.179          | 3.153.790         |
| Intangible fixed assets                                    | 12.2        | 315.277            | 161.036           |
| Shareholdings in subsidiaries                              | 12.3        | 12.933.734         | 12.840.913        |
| Stakes in joint ventures                                   | 12.4        | 664.135            | 1.009.794         |
| Other Stakes                                               | 12.5        | 51.832             | 51.832            |
| Financial assets - financial assets issued to subsidiaries | 12.6        | 5.126.000          | 626.000           |
| Other financial assets                                     | 12.7        | 1.133.223          | 267.999           |
| Tax assets for prepaid taxes                               | 12.8        | 2.730.129          | 2.784.368         |
| Derivative financial instruments                           | 12.14       | 25.902             |                   |
| Other receivables                                          | 12.9        | 10.049             | 8.800             |
| <b>TOTAL NON-CURRENT ASSETS</b>                            |             | <b>26.577.460</b>  | <b>20.904.532</b> |
| Stock                                                      | 12.10       | 22.968.611         | 19.957.839        |
| Accounts receivable                                        | 12.11       | 39.535.587         | 33.666.729        |
| Other receivables                                          | 12.12       | 1.608.323          | 2.340.099         |
| Other tax assets                                           | 12.13       | 4.893.032          | 1.592.722         |
| Derivative financial instruments                           | 12.14       |                    |                   |
| Cash and cash equivalents                                  | 12.15       | 12.188.897         | 14.470.160        |
| <b>TOTAL CURRENT ASSETS</b>                                |             | <b>81.194.450</b>  | <b>72.027.549</b> |
| Attività non correnti destinate alla vendita               |             | -                  | -                 |
| <b>TOTAL ASSETS</b>                                        |             | <b>107.771.910</b> | <b>92.932.081</b> |
| Share capital                                              | 12.16       | 11.500.000         | 11.500.000        |
| Treasury shares                                            | 12.16       | (87.880)           | (109.034)         |
| Legal reserve                                              | 12.16       | 2.300.000          | 2.300.000         |
| Other reserves                                             | 12.16       | 17.018.984         | 16.849.034        |
| Earnings (losses) carried forward                          | 12.16       | (1.577.524)        | (1.601.378)       |
| Earnings (losses) for current period                       | 12.16       | 7.517.223          | 3.158.000         |
| Total Group shareholders' equity                           | 12.16       | 36.670.803         | 32.096.622        |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                          |             | <b>36.670.803</b>  | <b>32.096.622</b> |
| Loans                                                      | 12.17       | 11.938.677         | 11.680.253        |
| Employee benefits                                          | 12.18       | 3.369.756          | 3.935.385         |
| Provisions for liabilities and charges                     | 12.19       | 42.735             | 33.500            |
| Deferred tax liabilities                                   | 12.20       | 1.093.251          | 1.661.121         |
| Derivative financial instruments                           | 12.14       | -                  | 6.071             |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                       |             | <b>16.444.419</b>  | <b>17.316.330</b> |
| Trade accounts payable                                     | 12.21       | 28.256.140         | 23.765.426        |
| Advance payments                                           | 12.21       | 8.554.554          | 5.299.076         |
| Other                                                      | 12.21       | 3.884.770          | 3.446.243         |
| Amounts due to banks and in respect of loans               | 12.17       | 4.543.011          | 4.982.898         |
| Deferred tax liabilities for current taxes                 | 12.22       | 6.604.213          | 3.666.882         |
| Provisions for risks and charges                           | 12.19       | 2.814.000          | 2.358.000         |
| Derivative financial instruments                           | 12.14       | -                  | 604               |
| <b>TOTAL CURRENT LIABILITIES</b>                           |             | <b>54.656.688</b>  | <b>43.519.129</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |             | <b>107.771.910</b> | <b>92.932.081</b> |



**FINANCIAL STATEMENTS AT DECEMBER 31, 2007**  
**INCOME STATEMENT AT 31 DECEMBER 2007 AND 31 DECEMBER 2006**

| <b>VALUES IN EURO</b>                                         | <b>Note</b>  | <b>31/12/07</b>   | <b>31/12/06</b>  |
|---------------------------------------------------------------|--------------|-------------------|------------------|
| Net revenues from sales and services                          | <b>12.23</b> | 111.401.585       | 93.675.508       |
| Other operating income                                        | <b>12.23</b> | 2.334.843         | 1.568.542        |
| Changes in inventories of semi-finished and finished products |              | 2.527.549         | (57.291)         |
| Increases for internal work                                   | <b>12.24</b> | 134.807           | 97.298           |
| Consumption of raw materials, supplies and merchandise        |              | (58.976.896)      | (50.231.382)     |
| Personnel costs                                               | <b>12.25</b> | (17.929.817)      | (15.825.064)     |
| Depreciation                                                  | <b>12.26</b> | (742.759)         | (654.019)        |
| Impairment and Writedowns                                     |              | -                 | -                |
| Other operating costs                                         | <b>12.27</b> | (28.565.983)      | (21.745.024)     |
| <b>EBIT</b>                                                   |              | <b>10.183.329</b> | <b>6.828.568</b> |
| Financial income                                              | <b>12.28</b> | 3.566.202         | 1.301.486        |
| Financial expenses                                            | <b>12.28</b> | (1.229.474)       | (1.414.872)      |
| Net result of transactions in foreign currencies              | <b>12.28</b> | 30.252            | 103.102          |
| Impairment of stakes in joint ventures                        | <b>12.29</b> | (345.659)         | (239.984)        |
| <b>EARNINGS BEFORE TAX</b>                                    |              | <b>12.204.650</b> | <b>6.578.300</b> |
| Current tax liabilities and deferred taxes                    | <b>12.30</b> | (4.687.427)       | (3.420.300)      |
| <b>NET EARNINGS / (LOSS)</b>                                  |              | <b>7.517.223</b>  | <b>3.158.000</b> |

## FINANCIAL STATEMENTS AT DECEMBER 31, 2007

### MOVIMENTAZIONE DEL PATRIMONIO NETTO AL 31 DICEMBRE 2006 E 31 DICEMBRE 2007

from January 1st, 2006 to December 31, 2006

| VALUES IN EURO                       | 01/01/2006        | Purchase/<br>Sale of<br>treasury<br>shares | Gains on<br>treasury<br>shares | Losses on<br>treasury<br>shares | Allocation of<br>previous<br>year's income | Distribution<br>of dividends | Net earnings     | 31/12/2006        |  |
|--------------------------------------|-------------------|--------------------------------------------|--------------------------------|---------------------------------|--------------------------------------------|------------------------------|------------------|-------------------|--|
| Share Capital                        | 11.500.000        |                                            |                                |                                 |                                            |                              |                  | 11.500.000        |  |
| Treasury stock                       | (92.872)          | (16.162)                                   |                                |                                 |                                            |                              |                  | (109.034)         |  |
| Treasury stock owned by Subsidiaries | -                 |                                            |                                |                                 |                                            |                              |                  | -                 |  |
| Share premium reserve                | 15.664.893        |                                            |                                |                                 |                                            |                              |                  | 15.664.893        |  |
| Legal reserve                        | 770.910           |                                            |                                |                                 | 1.529.090                                  |                              |                  | 2.300.000         |  |
| Other reserve                        | 220.624           | -                                          |                                |                                 | 963.517                                    |                              |                  | 1.184.141         |  |
| Conversion reserve                   |                   |                                            |                                |                                 | 0                                          |                              |                  | -                 |  |
| Profit / (loss) carried forward      | (1.781.405)       | -                                          | 71.273                         | (16.338)                        | 125.092                                    |                              |                  | (1.601.378)       |  |
| Income for the year                  | 3.904.952         |                                            |                                |                                 | (2.617.699)                                | (1.287.253)                  | 3.158.000        | 3.158.000         |  |
| <b>Net Equity</b>                    | <b>30.187.102</b> | <b>(16.162)</b>                            | <b>71.273</b>                  | <b>(16.338)</b>                 | <b>-</b>                                   | <b>(1.287.253)</b>           | <b>3.158.000</b> | <b>32.096.622</b> |  |

from January 1st, 2007 to December 31, 2007

| VALUES IN EURO                  | 01/01/2007        | Purchase/<br>Sale of<br>treasury<br>shares | Gains on<br>treasury<br>shares | Losses on<br>treasury<br>shares | Allocation of<br>previous<br>year's income | Distribution<br>of dividends | Net earnings     | 31/12/2007        | Note  |
|---------------------------------|-------------------|--------------------------------------------|--------------------------------|---------------------------------|--------------------------------------------|------------------------------|------------------|-------------------|-------|
| Share Capital                   | 11.500.000        |                                            |                                |                                 |                                            |                              |                  | 11.500.000        |       |
| Treasury stock                  | (109.034)         | 21.154                                     |                                |                                 |                                            |                              |                  | (87.880)          |       |
| Share premium reserve           | 15.664.893        |                                            |                                |                                 |                                            |                              |                  | 15.664.893        | a b c |
| Legal reserve                   | 2.300.000         |                                            |                                |                                 | -                                          |                              |                  | 2.300.000         | b     |
| Other reserve                   | 1.184.141         |                                            |                                |                                 | 169.950                                    |                              |                  | 1.354.091         | (1)   |
| Conversion reserve              | -                 |                                            |                                |                                 | -                                          |                              |                  | -                 |       |
| Profit / (loss) carried forward | (1.601.378)       |                                            | 25.000                         | (1.146)                         |                                            |                              |                  | (1.577.524)       |       |
| Income for the year             | 3.158.000         |                                            |                                |                                 | (169.950)                                  | (2.988.050)                  | 7.517.223        | 7.517.223         |       |
| <b>Net Equity</b>               | <b>32.096.622</b> | <b>21.154</b>                              | <b>25.000</b>                  | <b>(1.146)</b>                  | <b>-</b>                                   | <b>(2.988.050)</b>           | <b>7.517.223</b> | <b>36.670.803</b> |       |

#### UTILIZABLE FOR THE FOLLOWING PURPOSES:

- A: SHARE CAPITAL INCREASE
- B: TO COVER LOSSES
- C: DISTRIBUTION TO SHAREHOLDERS

(1) €684.727 UTILIZABLE FOR PURPOSE B; €669.364 UTILIZABLE FOR PURPOSES A, B, C

## FINANCIAL STATEMENTS AT DECEMBER 31, 2007

### CASH FLOW STATEMENT AT 31 DECEMBER 2007 AND 31 DECEMBER 2006

| VALUES IN EURO                                              | 31/12/2007         | 31/12/2006        |
|-------------------------------------------------------------|--------------------|-------------------|
| Earnings before tax                                         | 12.204.650         | 6.578.300         |
| Adjustments for non-monetary elements                       | (1.256.851)        | 1.401.825         |
| Amortization during period                                  | 742.759            | 654.019           |
| Allocation to Employees' Severance Fund                     | 21.711             | 497.538           |
| Losses (profit) on foreign currency transactions            | (30.252)           | (103.102)         |
| Total shareholding losses (income)                          | (2.522.600)        | 239.984           |
| Financial expenses                                          | 1.229.474          | 1.414.872         |
| Financial (income)                                          | (697.943)          | (1.301.486)       |
|                                                             | <b>10.947.799</b>  | <b>7.980.125</b>  |
| (Increase) /Reduction in trade and other receivables        | (8.384.402)        | 790.135           |
| (Increase) /Reduction in stock                              | (3.010.772)        | (1.876.788)       |
| Increase / (Reduction) in trade payables                    | 9.246.192          | (183.212)         |
| Increase / (Reduction) in other payables                    | 1.644.496          | 1.437.818         |
| Cash flow from typical activity                             | <b>10.443.313</b>  | <b>8.148.078</b>  |
| Interest payments                                           | (1.199.222)        | (1.311.770)       |
| Taxes                                                       | (3.646.040)        | (1.725.654)       |
| <b>Cash flow from operating activities</b>                  | <b>5.598.051</b>   | <b>5.110.654</b>  |
| Cash flow from investment activities                        |                    |                   |
| Acquisition of tangible fixed assets                        | (986.015)          | (672.310)         |
| Purchase of intangible fixed assets                         | (345.811)          | (178.499)         |
| Sale / (Purchase) of financial assets                       | (5.365.224)        | (9.515)           |
| Sale / (Purchase) of stakes in shareholders' equity         | (92.821)           | -                 |
| Receipts from sales of fixed assets                         | 1.437              | 19.522            |
| Dividends paid                                              | 2.868.259          | 600.000           |
| Financial income                                            | 697.943            | 701.486           |
| <b>Net cash flow derived from financing activity</b>        | <b>(3.222.232)</b> | <b>460.684</b>    |
| <i>Cash flow derived from financing activity</i>            |                    |                   |
| Variation in the conversion reserve                         | -                  | -                 |
| (Purchase)/sale of treasury stock                           | 45.008             | 38.773            |
| Variation area for OSAI minorities                          | (32.577)           | (4.700)           |
| Variation of other reserves                                 | 5.000.000          | 13.674.366        |
| Changes in balance- derivative instruments (FV)             | (4.597.784)        | (12.158.186)      |
| Loan agreements                                             | (199.663)          | (262.871)         |
| Repayments of loans and financing                           | (384.016)          | (512.362)         |
| (Repayments)/ Raising of financial leases                   | (1.500.000)        | 2.272.962         |
| (Repayments)/ Raising of Sabatini transactions              | (2.988.050)        | (1.287.253)       |
| <b>Net Cash flow derived from financing activity</b>        | <b>(4.657.082)</b> | <b>1.760.729</b>  |
| <b>Increase (decrease) in the cash and cash equivalents</b> | <b>(2.281.263)</b> | <b>7.332.067</b>  |
| <b>Cash and cash equivalents at start of year</b>           | <b>14.470.160</b>  | <b>7.138.093</b>  |
| <b>Cash and cash equivalents at year end</b>                | <b>12.188.897</b>  | <b>14.470.160</b> |

**FINANCIAL STATEMENTS AT DECEMBER 31, 2007**  
**BALANCE SHEET AT 31 DECEMBER 2007 AND 31 DECEMBER 2006**  
**ACCORDING TO CONSOB N. 15519 OF 27 JULY 2006**

| VALUES IN EURO                                             | Note  | 31/12/07           | related parties<br>(12.30) | 31/12/06          | related parties<br>(12.30) |
|------------------------------------------------------------|-------|--------------------|----------------------------|-------------------|----------------------------|
| Tangible fixed assets                                      | 12.1  | 3.587.179          |                            | 3.153.790         |                            |
| Intangible fixed assets                                    | 12.2  | 315.277            |                            | 161.036           |                            |
| Shareholdings in subsidiaries                              | 12.3  | 12.933.734         | 12.933.734                 | 12.840.913        | 12.840.913                 |
| Stakes in joint ventures                                   | 12.4  | 664.135            | 664.135                    | 1.009.794         | 1.009.794                  |
| Other Stakes                                               | 12.5  | 51.832             |                            | 51.832            |                            |
| Financial assets - financial assets issued to subsidiaries | 12.6  | 5.126.000          | 5.126.000                  | 626.000           | 626.000                    |
| Other financial assets                                     | 12.7  | 1.133.223          |                            | 267.999           |                            |
| Tax assets for prepaid taxes                               | 12.8  | 2.730.129          |                            | 2.784.368         |                            |
| Derivative financial instruments                           | 12.14 | 25.902             |                            |                   |                            |
| Other receivables                                          | 12.9  | 10.049             |                            | 8.800             |                            |
| <b>TOTAL NON-CURRENT ASSETS</b>                            |       | <b>26.577.460</b>  |                            | <b>20.904.532</b> |                            |
| Stock                                                      | 12.10 | 22.968.611         |                            | 19.957.839        |                            |
| Accounts receivable                                        | 12.11 | 39.535.587         | 11.323.288                 | 33.666.729        | 10.467.915                 |
| Other receivables                                          | 12.12 | 1.608.323          |                            | 2.340.099         |                            |
| Other tax assets                                           | 12.13 | 4.893.032          |                            | 1.592.722         |                            |
| Derivative financial instruments                           | 12.14 |                    |                            |                   |                            |
| Cash and cash equivalents                                  | 12.15 | 12.188.897         |                            | 14.470.160        |                            |
| <b>TOTAL CURRENT ASSETS</b>                                |       | <b>81.194.450</b>  |                            | <b>72.027.549</b> |                            |
| <b>TOTAL ASSETS</b>                                        |       | <b>107.771.910</b> |                            | <b>92.932.081</b> |                            |
| Share capital                                              | 12.16 | 11.500.000         |                            | 11.500.000        |                            |
| Treasury shares                                            | 12.16 | (87.880)           |                            | (109.034)         |                            |
| Legal reserve                                              | 12.16 | 2.300.000          |                            | 2.300.000         |                            |
| Other reserves                                             | 12.16 | 17.018.984         |                            | 16.849.034        |                            |
| Earnings (losses) carried forward                          | 12.16 | (1.577.524)        |                            | (1.601.378)       |                            |
| Earnings (losses) for current period                       | 12.16 | 7.517.223          |                            | 3.158.000         |                            |
| Total Group shareholders' equity                           | 12.16 | 36.670.803         |                            | 32.096.622        |                            |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                          |       | <b>36.670.803</b>  |                            | <b>32.096.622</b> |                            |
| Loans                                                      | 12.17 | 11.938.677         |                            | 11.680.253        |                            |
| Employee benefits                                          | 12.18 | 3.369.756          |                            | 3.935.385         |                            |
| Provisions for liabilities and charges                     | 12.19 | 42.735             |                            | 33.500            |                            |
| Deferred tax liabilities                                   | 12.20 | 1.093.251          |                            | 1.661.121         |                            |
| Derivative financial instruments                           | 12.14 |                    |                            | 6.071             |                            |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                       |       | <b>16.444.419</b>  |                            | <b>17.316.330</b> |                            |
| Trade accounts payable                                     | 12.21 | 28.256.140         | 4.929.974                  | 23.765.426        | 5.959.843                  |
| Advance payments                                           | 12.21 | 8.554.554          |                            | 5.299.076         |                            |
| Other                                                      | 12.21 | 3.884.770          | 239.404                    | 3.446.243         | 165.937                    |
| Amounts due to banks and in respect of loans               | 12.17 | 4.543.011          |                            | 4.982.898         |                            |
| Deferred tax liabilities for current taxes                 | 12.22 | 6.604.213          |                            | 3.666.882         |                            |
| Provisions for risks and charges                           | 12.19 | 2.814.000          |                            | 2.358.000         |                            |
| Derivative financial instruments                           | 12.14 |                    |                            | 604               |                            |
| <b>TOTAL CURRENT LIABILITIES</b>                           |       | <b>54.656.688</b>  |                            | <b>43.519.129</b> |                            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>          |       | <b>107.771.910</b> |                            | <b>92.932.081</b> |                            |

## FINANCIAL STATEMENTS AT DECEMBER 31, 2007

### INCOME STATEMENT AT 31 DECEMBER 2007 AND 31 DECEMBER 2006 ACCORDING TO CONSOB N. 15519 OF 27 JULY 2006

| VALUES IN EURO                                                | Note  | 31/12/2007        | related parties<br>(12.30) | 31/12/06         | related parties<br>(12.30) |
|---------------------------------------------------------------|-------|-------------------|----------------------------|------------------|----------------------------|
| Net revenues from sales and services                          | 12.23 | 111.401.585       | 30.902.362                 | 93.675.508       | 21.728.345                 |
| Other operating income                                        | 12.23 | 2.334.843         | 439.065                    | 1.568.542        | 172.623                    |
| Changes in inventories of semi-finished and finished products |       | 2.527.549         |                            | (57.291)         |                            |
| Increases for internal work                                   | 12.24 | 134.807           |                            | 97.298           |                            |
| Consumption of raw materials, supplies and merchandise        |       | (58.976.896)      | 16.629.032                 | (50.231.382)     | 17.045.330                 |
| Personnel costs                                               | 12.25 | (17.929.817)      | 523.764                    | (15.825.064)     | 914.425                    |
| Depreciation                                                  | 12.26 | (742.759)         |                            | (654.019)        |                            |
| Impairment and Writedowns                                     |       |                   |                            | -                |                            |
| Other operating costs                                         | 12.27 | (28.565.983)      | 1.287.927                  | (21.745.024)     | 1.480.657                  |
| <b>EBIT</b>                                                   |       | <b>10.183.329</b> |                            | <b>6.828.568</b> |                            |
| Financial income                                              | 12.28 | 3.566.202         | 166.230                    | 1.301.486        | 161.395                    |
| Financial expenses                                            | 12.28 | (1.229.474)       | 12.157                     | (1.414.872)      | 51.171                     |
| Net result of transactions in foreign currencies              | 12.28 | 30.252            |                            | 103.102          |                            |
| Net result from assets available for sales                    | 12.29 | (345.659)         | 345.659                    | (239.984)        | 239.984                    |
| <b>EARNINGS BEFORE TAX</b>                                    |       | <b>12.204.650</b> |                            | <b>6.578.300</b> |                            |
| Current tax liabilities and deferred taxes                    | 12.30 | (4.687.427)       |                            | (3.420.300)      |                            |
| <b>NET EARNINGS / (LOSS)</b>                                  |       | <b>7.517.223</b>  |                            | <b>3.158.000</b> |                            |

## 11. DESCRIPTION OF ACCOUNTING PRINCIPLES

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### □ COMPANY INFORMATION

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

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

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

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

As parent company, PRIMA INDUSTRIE S.p.A. has also prepared the consolidated financial statements to 31 December 2007 of the PRIMA Group.

### □ VALUATION CRITERIA

The 2007 financial statements represent the separate statements of the parent company PRIMA INDUSTRIE S.p.A. and were prepared according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. IFRS refers to all reviewed International Accounting Standards ("IAS") and all interpretations of the International Financing Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In fulfillment of European Regulation no. 1606 of 19 July 2002, since 2005 the PRIMA Group has adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") to prepare the consolidated financial statements. In accordance with national norms for the implementation of the abovementioned Regulations, the Financial Statements of the parent company PRIMA INDUSTRIE S.p.A were prepared using the abovementioned principles as of 2006.

The information statement required by IFRS 1 - *First-time adoption of the IFRS*, regarding the effects of transition to the IFRS, was included as an annex to the consolidated financial statements to 31 December 2006, to which you are referred.

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

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

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## □ Accounting principles, amendments and interpretations applied in 2007

In the month of August 2005, IASB issued a new accounting principle, IFRS 7 – “Financial Instruments:

Supplementary Information” in addition to a complementary amendment to IAS 1 “Presentation of the financial statements: supplementary information relative to share capital”, effective as of January 1<sup>st</sup>, 2007.

The IFRS 7 principle requires supplementary information relative to financial instruments and was applied by the Group as of January 1<sup>st</sup>, 2007. The IAS amendment, on the other hand, introduces requirements relative to information which must be provided on the share capital of the company and does not produce any effect on the valuation or classification of these items. This amendment was applied as of January 1<sup>st</sup>, 2007.

### **Non-significant interpretations applicable as of January 1st, 2007**

The following interpretations, applicable as of January 1<sup>st</sup>, 2007, regulate cases and case histories that are not present within the company:

- ❖ IFRIC 7 – Application of the re-determination method, in accordance with IAS 29 – Accounting information relative to hyperinflation economies;
- ❖ IFRIC 8 – Realm of application of IFRS 2;
- ❖ IFRIC 9 – Subsequent valuation of implicit derivatives.

### **ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET APPLICABLE and not adopted in advance by the company**

On March 29th, 2007, IASB issued a revised version of IAS 23 – Financial Charges which will be applicable as of January 1<sup>st</sup>, 2009. In this new version of the principle, the option through which companies could immediately book—in the income statement—financial charges sustained for activities for which a certain period of time normally elapses in order to allow the asset to be ready for use or sale. The principle will be applicable in the future in relation to financial charges relative to capitalized goods, effective as of January 1<sup>st</sup>, 2009. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle. On July 5th, 2007, IFRIS issued the interpretation IFRIC 14 on IAS 19 – Activities for plans with definite benefits and minimum hedging criteria, applicable as of January 1st, 2008.

The interpretation provides general guidelines on how to determine the limit amount established by IAS 19 for the recognition of activities serving the plans and provides an explanation relative to the accounting effects caused by the presence of a minimum plan coverage clause. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle.

On September 6th, 2007, IASB issued a revised version of IAS 1 – Presentation of the financial statements which will be applicable as of January 1<sup>st</sup>, 2009. The new version of the principle requires that the company reports—within a statement of changes in shareholders’ equity—all changes generated by transactions with shareholders. All transactions implemented with third parties (“comprehensive income”) must, on the other hand, be reported within a single statement on comprehensive income or within two separate statements (income statement and statement of comprehensive income). In any case, the changes generated by transactions with third parties may be recorded within the statement of changes in shareholders’ equity. As of the date of these financial statements, the competent bodies of the European Union have not yet completed the ratification process which is required for the application of this principle.

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Finally, it should be noted that the following interpretations which regulate cases and case histories that are not present for the company have been issued:

- ❖ IFRIC 12 – Contracts for licensed services (applicable as of January 1st, 2008 and not yet ratified by the European Union);
- ❖ IFRIC 13 – Customer loyalty programs (applicable as of January 1st, 2009 and not yet ratified by the European Union).

#### □ **TRANSLATION OF ITEMS DENOMINATED IN FOREIGN CURRENCY**

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

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

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

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

#### □ **TANGIBLE ASSETS**

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

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

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

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

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

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

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

## □ INTANGIBLE ASSETS

### (a) *Software*

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

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

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

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

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

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

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

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

### (c) *Other intangible assets*

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

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

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

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

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

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

These are stated at cost adjusted for impairment.

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

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

## □ **SHAREHOLDINGS IN OTHER COMPANIES**

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

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

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

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

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

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

## □ **FINANCIAL ASSETS**

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

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

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

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

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

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

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(b) *Loans and financial receivables*

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

(c) *Investments held to maturity*

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

(d) *Financial investments held for sale*

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

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

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

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

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

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

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

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

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

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## □ INVENTORIES

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

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

## □ TRADE AND OTHER RECEIVABLES

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

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

## □ CASH AND CASH EQUIVALENTS

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

## □ SHARE CAPITAL

Ordinary shares are classified in shareholders' equity.

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

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

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## □ **LOANS**

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

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

## □ **EMPLOYEE BENEFITS**

### (a) *Pension schemes*

Up until December 31st, 2006, employee termination indemnities were considered a fixed-benefit plan.

Regulation of these funds was modified by Law no. 296 of December 27<sup>th</sup>, 2006 ("2007 Financial Act) and subsequent Decrees and Regulations issued in the first months of 2007. In light of these modifications and, in particular, with reference to companies with at least 50 employees, this scheme must now only be considered a fixed—benefit plan for quotas accrued before January 1<sup>st</sup>, 2007 (and not yet liquidated within the financial statements) while the quotas which accrued subsequently to this date are comparable to a fixed-contribution plan.

The Cometa fund (CCNL Engineering Industry supplementary pension fund) and the PREVINDAI pension fund are considered equivalent to fixed-contribution plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(e) Employee benefits granted in shares*

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

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## □ PROVISIONS FOR RISKS AND CHARGES

Provisions are allocated to risks and charges when:

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

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

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

## □ RECOGNITION OF REVENUES

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

### (a) *Sale of goods*

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

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

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

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

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

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



(b) *Services*

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

(c) *Interest*

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

(d) *Royalties*

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

(e) *Dividends*

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

□ **TAXES**

a) *current*: the income tax burden for the year is determined according to the legislation in force. Income tax is reflected in the income statement. On 01/06/07, the company notified the Italian Internal Revenue Service of its renewal—in conjunction with the subsidiary PRIMA ELECTRONICS S.p.A.—in the national consolidated taxation regime for the three-year period 2007-2009, in accordance with article 117/129 of the Consolidation Act on Income Tax (T.U.I.R.). An agreement was therefore stipulated in order to regulate relations between the two companies.

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

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

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

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

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

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## □ LEASING

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

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

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

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

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

## □ DISTRIBUTION OF DIVIDENDS

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

## □ STATE GRANTS

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

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

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

## □ THE FINANCIAL RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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### *Sensitivity pursuant to IFRS 7*

Positive net indebtedness—both at the time of opening and closing of the year 2007, along with the modest amount of financial charges—ensure that the impact of a sensitivity analysis is not significant. On the other hand, the acquisition of the Finn-Power Group on February 4th, 2008 results in a drastic change in the financial structure of the Group and the relative debt which was created will be subject to a sensitivity analysis in 2008.

## □ ACCOUNTING IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

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

## □ ESTIMATE OF FAIR VALUE

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

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

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

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

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

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

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

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

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

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## Deferred taxes

The deferred tax assets and liabilities recorded in the Financial Statements are determined by applying to the differences between the value attributed to an asset or a liability according to Statutory criteria and the value attributed to that asset or liability for tax purpose, the tax rates that one presumes will be applicable in the different countries in the year in which one expects the timing difference to cease.

The deferred taxes relating to fiscal losses that can be carried forward to future financial years are recorded in the Financial Statements only if and to the extent that management believes that in future financial years the company concerned will achieve a positive tax result that will allow the deferred tax loss to be absorbed.

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

## Provisions for inventory obsolescence

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

If these estimates are found to be inappropriate, adjustments will be implemented with respect to the provision for obsolescence with the associated effect on the Income Statement.

## Allowance for doubtful accounts

The provisions raised to the allowance for doubtful accounts are determined on the basis of an analysis of the individual debt positions in the light of the relationships with the individual customers.

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

## Employee benefits

The company has benefit programs, as prescribed by labor agreements or by law; employees receive these benefits on termination of the working relationship.

The determination of the amount to be recorded in the Financial Statements requires actuarial estimates to be made that take into account a series of presumptions relating to parameters such as the annual rate of inflation, the growth in wages, the annual rate of staff turn-over and other variables.

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

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**EXPLANATORY DETAILS RELATIVE TO THE  
FINANCIAL STATEMENTS  
OF 31 DECEMBER 2007**

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## 12. EXPLANATORY DETAILS RELATIVE TO THE FINANCIAL STATEMENTS OF 31 DECEMBER 2007

### Note 12.1

| Tangible fixed assets                   | Land and buildings | Plant and machinery | Industrial & commercial equipment | Other assets   | TOTAL              |
|-----------------------------------------|--------------------|---------------------|-----------------------------------|----------------|--------------------|
| <b>1 Jan 2006</b>                       |                    |                     |                                   |                |                    |
| Historical cost                         | 2.362.372          | 1.795.631           | 1.835.976                         | 2.351.502      | <b>8.345.481</b>   |
| Accumulated depreciation                | (420.688)          | (1.269.792)         | (1.562.003)                       | (2.054.137)    | <b>(5.306.620)</b> |
| <b>Net value at 1 January 2006</b>      | <b>1.941.684</b>   | <b>525.839</b>      | <b>273.973</b>                    | <b>297.365</b> | <b>3.038.861</b>   |
| <b>Year 2006</b>                        |                    |                     |                                   |                |                    |
| Net value at 1 January 2006             | 1.941.684          | 525.839             | 273.973                           | 297.365        | <b>3.038.861</b>   |
| Increases                               | 56.500             | 67.495              | 293.397                           | 153.057        | <b>570.449</b>     |
| Disposals                               |                    |                     |                                   | (19.522)       | <b>(19.522)</b>    |
| Depreciation                            | (74.486)           | (125.444)           | (184.585)                         | (153.345)      | <b>(537.860)</b>   |
| Utilization of accumulated depreciation |                    |                     |                                   | 101.862        | <b>101.862</b>     |
| <b>Net value at 31 December 2006</b>    | <b>1.923.698</b>   | <b>467.890</b>      | <b>382.785</b>                    | <b>379.417</b> | <b>3.153.790</b>   |
| <b>1 Jan 2007</b>                       |                    |                     |                                   |                |                    |
| Historical cost                         | 2.418.872          | 1.863.126           | 2.129.373                         | 2.485.037      | <b>8.896.408</b>   |
| Accumulated depreciation                | (495.174)          | (1.395.236)         | (1.746.588)                       | (2.105.620)    | <b>(5.742.618)</b> |
| <b>Net value at 1 January 2007</b>      | <b>1.923.698</b>   | <b>467.890</b>      | <b>382.785</b>                    | <b>379.417</b> | <b>3.153.790</b>   |
| <b>Year 2007</b>                        |                    |                     |                                   |                |                    |
| Net value at 1 January 2007             | 1.923.698          | 467.890             | 382.785                           | 379.417        | <b>3.153.790</b>   |
| Increases                               | 266.765            | 116.294             | 270.655                           | 332.301        | <b>986.015</b>     |
| Disposals                               |                    |                     |                                   | (2.590)        | <b>(2.590)</b>     |
| Depreciation                            | (75.798)           | (120.265)           | (191.192)                         | (163.933)      | <b>(551.188)</b>   |
| Utilization of accumulated depreciation |                    |                     |                                   | 1.152          | <b>1.152</b>       |
| <b>Net value at 31 December 2007</b>    | <b>2.114.665</b>   | <b>463.919</b>      | <b>462.248</b>                    | <b>546.347</b> | <b>3.587.179</b>   |
| <b>0 gennaio 1900</b>                   |                    |                     |                                   |                |                    |
| Historical cost                         | 2.685.637          | 1.979.420           | 2.400.028                         | 2.814.748      | <b>9.879.833</b>   |
| Accumulated depreciation                | (570.972)          | (1.515.501)         | (1.937.780)                       | (2.268.401)    | <b>(6.292.654)</b> |
| <b>Net value at 31 December 2007</b>    | <b>2.114.665</b>   | <b>463.919</b>      | <b>462.248</b>                    | <b>546.347</b> | <b>3.587.179</b>   |

Land and buildings includes land for €555,000 (unchanged since the previous year) and Light constructions with the value of €142,000.

The buildings include one building rented to PRIMA INDUSTRIE UK Ltd for €193,000 at 31/12/2007.

The building under financial leasing (facilities in Via Antonelli, 28, Collegno) with a net value at 31/12/2007 of €984,000 increased in value by €26,000 during the year, following extraordinary maintenance works on the facilities.

During the course of 2007, tangible fixed assets in progress totaling 241 thousand Euro were booked in connection with costs sustained for preliminary analysis and design activities relating to the new facilities.

Land and Buildings were valued during the course of 2004 by an outside expert, which determined the fair value; at 31/12/2007 this value was not below the value entered in the financial statements.

Plants and Machinery includes land plants €362,000 and Machinery with the value of €102,000. Borrowings from banks have increased by 116 thousand euros during the course of 2007.

Industrial and Commercial Equipment includes €376,000 of equipment and Metal Dies with a value of €86,000. €135,000 of equipment were constructed internally during the year.

The other tangible fixed assets are:

- ❑ office furniture, furnishings and equipment with a value of €71,000
- ❑ electronic office equipment worth €419,000
- ❑ electronic office equipment under lease for €23,000
- ❑ vehicles for internal transport for €33,000

During the course of 2007, the value of motor vehicles was brought to zero following the sale of the only owned automobile.

All the above figures to 31/12/2007 are net of depreciation.

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

## NOTE 12.2

| Intangible fixed assets              | Software       | Patents, Estimate | Other         | TOTAL            |
|--------------------------------------|----------------|-------------------|---------------|------------------|
| <b>Year 2006</b>                     |                |                   |               |                  |
| Net value at 1 January 2006          | 98.697         | -                 |               | <b>98.697</b>    |
| Increases/(decreases)                | 96.148         | 82.350            |               | <b>178.498</b>   |
| Depreciation                         | (99.689)       | (16.470)          |               | <b>(116.159)</b> |
| <b>Net value at 31 December 2006</b> | <b>95.156</b>  | <b>65.880</b>     | <b>0</b>      | <b>161.036</b>   |
| <b>Year 2007</b>                     |                |                   |               |                  |
| Net value at 1 January 2007          | 95.156         | 65.880            |               | <b>161.036</b>   |
| Increases/(decreases)                | 321.811        | (1.000)           | 25.000        | <b>345.811</b>   |
| Depreciation                         | (170.350)      | (16.220)          | (5.000)       | <b>(191.570)</b> |
| <b>Net value at 31 December 2007</b> | <b>246.617</b> | <b>48.660</b>     | <b>20.000</b> | <b>315.277</b>   |

The intangible assets were wholly purchased from without the company and there are no intangible assets with an indefinite useful life.

These include software totaling circa 247 thousand Euro and rights totaling circa 48 thousand Euro while the "Other" item, equal to 20 thousand Euro, refers to granting of a patent, in accordance with a cooperation and licensing agreement with the Fiat Research Center.

The item, "Rights" refers to the agreement between PRIMA INDUSTRIE S.p.A. and Stima Engineering S.r.l. whose object is non-exclusive transfer to PRIMA INDUSTRIE of the production know-how of the units entitled "compact server" and "tower server", as well as development of the compact server project with motorized pallets.

## NOTE 12.3

| Shareholdings in subsidiaries        | PRIMA ELECTRONICS S.p.A | PRIMA INDUSTRIE GmbH | PRIMA North America Inc. | PRIMA SCANDINAVIA AB | PRIMA INDUSTRIE UK | PRIMA INDUSTRIE POLSKA | TOTAL             |
|--------------------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------------|------------------------|-------------------|
| Value of stake                       | 1.705.206               | 474.435              | 24.205.796               | 248.516              | 1                  |                        | 26.633.954        |
| Provisions for writedowns            |                         | (149.238)            | (13.408.731)             | (235.072)            |                    |                        | (13.793.041)      |
| <b>Net value at 01/01/07</b>         | <b>1.705.206</b>        | <b>325.197</b>       | <b>10.797.065</b>        | <b>13.444</b>        | <b>1</b>           | <b>0</b>               | <b>12.840.913</b> |
| Share of earnings                    |                         |                      |                          |                      |                    |                        | -                 |
| Increases                            |                         |                      |                          |                      |                    | 92.821                 | 92.821            |
| Other shareholders' equity movements |                         |                      |                          |                      |                    |                        | -                 |
| <b>Net value at 31/12/07</b>         | <b>1.705.206</b>        | <b>325.197</b>       | <b>10.797.065</b>        | <b>13.444</b>        | <b>1</b>           | <b>92.821</b>          | <b>12.933.734</b> |

The value of shareholdings on 31.12.07 amounted to 12,934 thousand Euro, an increase compared to the 93 thousand Euro of the previous financial year, and due to the founding of a new company in Poland, "PRIMA INDUSTRIE POLSKA S.p.z.o.o.". This increase corresponds to the countervalue in Euro of 350,000 Polish Zloty which were paid as share capital in the new company. It should be noted that all the Companies listed above fall within the scope of consolidation of the PRIMA group.

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

## NOTE 12.4

| Stakes in joint ventures             | SPMLT (1)      | SNK            | SHANGHAI UNITY PRIMA (2) | TOTAL            |
|--------------------------------------|----------------|----------------|--------------------------|------------------|
| Value of stake                       | 913.887        | 389.827        | 449.227                  | 1.752.941        |
| Provisions for writedowns            | (568.228)      | (174.919)      |                          | (743.147)        |
| <b>Net value at 01/01/07</b>         | <b>345.659</b> | <b>214.908</b> | <b>449.227</b>           | <b>1.009.794</b> |
| Share of earnings                    | (345.659)      |                |                          | (345.659)        |
| Increases                            |                |                |                          | -                |
| Other shareholders' equity movements |                |                |                          | -                |
| <b>31 Dec. 2007</b>                  | <b>0</b>       | <b>214.908</b> | <b>449.227</b>           | <b>664.135</b>   |

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

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

These are three joint ventures set up by PRIMA INDUSTRIE in China and Japan. During the year, c. €345,000 was set aside as doubtful accounts for Shenyang Prima Laser Machinery Co. Ltd., zeroing out the value of the shareholding given that the loss in value of the latter is believed to be long term.

In compliance with IAS/IFRS, the share for the year's result in the other joint ventures is posted only in the consolidated financial statements.

Please see the Report on Operations, for more information.



**NOTE 12.5**

| Other equity investments             | Consorzio Sintesi | Unionfidi  | Fidindustria | TOTAL         |
|--------------------------------------|-------------------|------------|--------------|---------------|
| Value of stake                       | 51.600            | 129        | 103          | 51.832        |
| Provisions for writedowns            |                   |            |              | -             |
| <b>Net value at 01/01/07</b>         | <b>51.600</b>     | <b>129</b> | <b>103</b>   | <b>51.832</b> |
| Share of earnings                    |                   |            |              | -             |
| Increases                            |                   |            |              | -             |
| Other shareholders' equity movements |                   |            |              | -             |
| <b>31 Dec. 2007</b>                  | <b>51.600</b>     | <b>129</b> | <b>103</b>   | <b>51.832</b> |

There were no changes during the year.

The sum of c. €52,000 refers to a 10% stake in the share capital of Consorzio Sintesi. This consortium, with private and public organizations numbering among its partners, led by CNR, carries out research and development studies and technological industrialization for the manufacturing sector. The other shareholdings refer to two guarantee consortia (Unionfidi and Fidindustria), which the Company joined in order to receive suretyship for SIMEST loans.

The shareholding in Mechanical Industries Srl, which was placed into liquidation on the 28-31/03/03, remains in the financial statements at nil.

The investment in Macro Meccanica SpA (placed into liquidation at the end of 1999) is carried in the financial statements at a nil balance.

The investment in Rambaudi Industriale S.p.A. remains in the financial statements with a nil balance, in that the company was declared bankrupt by the Court of Turin on 30/09 – 27/10/03.

**NOTE 12.6**

| Financial assets - loans issued to subsidiaries | PRIMA ELECTRONICS S.p.A | PRIMA Industrie UK | TOTAL            |
|-------------------------------------------------|-------------------------|--------------------|------------------|
| <b>1 Jan 2006</b>                               | -                       | <b>626.000</b>     | <b>626.000</b>   |
| Increases                                       |                         | -                  | -                |
| Decreases                                       |                         |                    | -                |
| Exchange rate adjustments                       |                         |                    | -                |
| <b>1 Jan 2007</b>                               | -                       | <b>626.000</b>     | <b>626.000</b>   |
| Increases                                       | 6.000.000               |                    | 6.000.000        |
| Decreases                                       | (1.500.000)             |                    | (1.500.000)      |
| Exchange rate adjustments                       |                         |                    |                  |
| <b>31 Dec 2007</b>                              | <b>4.500.000</b>        | <b>626.000</b>     | <b>5.126.000</b> |

The main movements in the year refer to:

- transfer of 6 million Euro to PRIMA ELECTRONICS S.p.A. to enable the subsidiary to cover the financial requirements for the acquisition of the OSAI group. The sum was partially reimbursed for 1.5 million Euro during the course of the year.

At the end of the year, in addition to the newly issued loan, another loan was still effective with respect to PRIMA INDUSTRIE UK .

**NOTE 12.7**

Other financial assets totaling 1,133 thousand euro are reported in the following tables:

| <b>Other financial assets</b>           |                |
|-----------------------------------------|----------------|
| <b>01/01/2006</b>                       | <b>258.484</b> |
| Acquisitions                            |                |
| Sales                                   |                |
| Revaluations                            | 9.515          |
| <b>01/01/2007</b>                       | <b>267.999</b> |
| Acquisitions                            |                |
| Sales                                   |                |
| Revaluations                            | 10.708         |
| <b>31/12/2007</b>                       | <b>278.707</b> |
| (Less current portion)                  | (278.707)      |
| Current portion                         |                |
| Other financial assets, detail          |                |
| <b>UNLISTED SHARES</b>                  |                |
| Single-premium capitalization agreement | 278.707        |
| <b>TOTAL</b>                            | <b>278.707</b> |

These are financial assets valued at fair value with changes in value recorded in the income statement. Reference is made to a capitalization policy with single premium and a duration of five years, undersigned on 08/09/04. This amount was re-valuated on 31/12/07 by applying valuation measures of 4.2% for the days between the date of the last annual recurrence on 08/09/07 and 31/12/07. Up until 08/09/07, the revaluation was promptly implemented by applying the financial return realized by the fund (4.45%).

| <b>Other financial assets - Financial fixed assets in progress</b> |                |
|--------------------------------------------------------------------|----------------|
| <b>01/01/2006</b>                                                  | <b>-</b>       |
| Acquisitions                                                       |                |
| Sales                                                              |                |
| Change from fair value                                             |                |
| <b>01/01/2007</b>                                                  | <b>-</b>       |
| Acquisitions                                                       | 854.516        |
| Sales                                                              |                |
| Change from fair value                                             |                |
| <b>31/12/2007</b>                                                  | <b>854.516</b> |

During the course of the year, current financial fixed assets totaling 885 thousand Euro were recorded in reference to consulting and legal advisory services for the acquisition of the 100% shareholding in the Finnish company FINN-POWER Oy; the contract for this acquisition was stipulated on February 4th, 2008.

**NOTE 12.8**

| Tax assets for prepaid taxes      | 31/12/07         | 31/12/06         |
|-----------------------------------|------------------|------------------|
| Initial balance                   | 2.784.368        | 3.859.224        |
| Provisions raised during the year | 1.165.486        | 1.959.248        |
| Utilizations during the year      | (1.219.725)      | (3.034.104)      |
| <b>TOTAL</b>                      | <b>2.730.129</b> | <b>2.784.368</b> |

The main items for fiscal assets deriving from prepaid taxes can be summed up as follows:

| Tax assets for prepaid taxes | Deferred taxability | Prepaid taxes |
|------------------------------|---------------------|---------------|
| Non-deductible provisions    | 5.931               | 1.633         |
| Other minor items            | 464                 | 138           |
| IAS adjustments              | 3.120               | 959           |
| <b>TOTAL</b>                 | <b>9.515</b>        | <b>2.730</b>  |

There are no fiscal assets for prepaid taxes on previous losses.

With regards to Italian companies, calculations were adjusted on the basis of the new tax rates which will become effective as of 2008.

**Note 12.9 Other receivables**

The item stands at c. €10,000 and remains more or less stable compared to the previous year's figure. Contains advances on the Employees' Severance Fund for the years 1997/98, in accordance with Law 140/97, increased by accrued interest and net of utilizations since 01/01/2000 (as per Legislative Decree no. 79/97).

**NOTE 1 0**

| Inventories                              | 31/12/07          | 31/12/06          |
|------------------------------------------|-------------------|-------------------|
| Raw materials                            | 10.372.697        | 9.854.474         |
| (Provision for writedown of raw materia  | (1.373.165)       | (1.338.166)       |
| Semi-finished products                   | 4.693.405         | 4.976.966         |
| Finished products                        | 9.507.674         | 6.464.565         |
| (Provision for writedown of finished pro | (232.000)         | -                 |
| <b>TOTAL</b>                             | <b>22.968.611</b> | <b>19.957.839</b> |

The increase in raw materials compared to 31/12/2006 can be attributed to greater requirements needed to handle the increase in turnover during the year and the substantial orders portfolio at 31/12/2007.

Finished products in stock were reduced from 2006 figures by 3.043 thousand Euro and are made up as follows:

|                 |                                                                                                                                                                                                                                                         |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 machines      | 1 RAPIDO, 1 DOMINO, 1 PLATINO and 1 SINCRONO earmarked for demonstrations to customers;                                                                                                                                                                 |
| 4 machines      | 1 DOMINO , 1 PLATINO and 2 OPTIMO used temporarily for research and development activities;                                                                                                                                                             |
| 12 machines     | 1 DOMINO, 1 RAPIDO, 7 PLATINO , 2 SINCRONO and 1 MAXIMO destined for delivery to customers at the start of 2008;                                                                                                                                        |
| 1 machine       | 1 PLATINO for training courses                                                                                                                                                                                                                          |
| 4 used machines | 2 PLATINO and 2 SINCRONO withdrawn from customers and awaiting reconditioning and resale during 2008.                                                                                                                                                   |
| 15 machines     | 12 PLATINO, 1 RAPIDO, 1 SINCRONO and 1 MAXIMO delivered, though not yet accepted by the end customer, and hence not posted as a revenue in accordance with the IAS 18 accounting standards (the value of machines not accepted is 3,686 thousand Euro). |

In accordance with IAS 2, there now follow highlights of the movements of provisions for writedown of raw materials and finished products during the year:

| Provisions for writedowns | Raw materials    | finished products |
|---------------------------|------------------|-------------------|
| Balance 01/01/07          | 1.338.165        | -                 |
| Utilizations              | -                |                   |
| Allocations               | 35.000           | 232.000           |
| <b>Balance 31/12/07</b>   | <b>1.373.165</b> | <b>232.000</b>    |

Moreover, an allocation of 60 thousand Euro was made to the provision for writedowns of finished products with respect to two machines that are currently in use within the R&D department as well as 172 thousand Euro for three used machines which were collected by customers and must be serviced before being re-sold. In particular, 112 thousand Euro refer to the collection of a PLATINO from an Italian customer with which a legal dispute was ongoing as a result of a late payment default; the dispute was settled out of court and involved the collection of the machine in compensation for the due receivable.

## NOTE 12.11

| Trade receivables                  | 31/12/07          | 31/12/06          |
|------------------------------------|-------------------|-------------------|
| Trade receivables                  | 30.233.501        | 25.179.219        |
| Provision for doubtful debts       | (2.028.000)       | (1.980.405)       |
| <b>Net trade receivables</b>       | <b>28.205.501</b> | <b>23.198.814</b> |
| Receivables - subsidiaries         | 10.950.123        | 9.214.980         |
| Receivables - associated companies | 379.963           | 1.252.936         |
| <b>TOTAL</b>                       | <b>39.535.587</b> | <b>33.666.730</b> |

This item amounts to 39,535 thousand euros as of 31 December 2007 and increased with respect to the previous year by 5,869 thousand euros.

There has been an increase in receivables due from customers (5,006 thousand Euro net of the allowance for doubtful accounts), due to increased business volumes. Receivables from subsidiaries increased to 1,735 thousand Euro with respect to the previous year due to the good sales trend recorded by Group companies, while receivables from affiliated companies and joint ventures fell by €873,000 owing to the reduced volume of sales to the joint venture Shenyang Prima Laser Machinery Co. Ltd..

Foreign currency debts mainly consist of US dollars. Given the open positions at 31/12/07 adjustments to the exchange rate were entered according to the figure recorded by the financial markets on the same date.

A net increase of 47 thousand Euro was reported for the allowance for doubtful accounts. This item is composed of utilizations totaling 617 thousand Euro as well as new allocations totaling 664 thousand Euro relative to customers which declared bankruptcy or subject to insolvency proceedings and a specific allocation in relation to a distributor in liquidation.

### **Receivables due beyond one year**

Trade receivables due beyond one year total 21 thousand Euro, an increase of 346 thousand Euro with respect to the previous year given that almost all loans granted to certain customers in previous years have been redeemed during the course of the year.

### **NOTE 12.12 Other short-term receivables**

The item stands at 1,608 thousand Euro compared with 2,340 thousand Euro at the end of the previous financial year and includes:

- receivable contributions (PAMELA and RESALT projects as well as facilitations for e-commerce) totaling 395 thousand Euro.

These contributions, still to be delivered, are for research and development agreements already signed with the Ministry of Universities and Scientific and Technological Research.

- receivables from employees (€190,000) for advances on travel expenses granted to employees;
- advances to suppliers (€530,000) paid for future deliveries;
- security deposits (€350,000)
- accruals and deferrals (€141,000)

### **12.13 Other fiscal assets**

The item stands at 4,893 thousand Euro compared with 1,593 thousand Euro at the end of the previous financial year.

Fiscal assets include VAT credit (€2,002,000) and other tax receivables (€95,000) including a Group corporate tax (IRES) advance payment of €2,796,000.

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**NOTE 12.14**

|                                   | 31/12/2007    |             | 31/12/2006 |                |
|-----------------------------------|---------------|-------------|------------|----------------|
| Derivative financial instruments  | Assets        | Liabilities | Assets     | Liabilities    |
| IRS                               | 25.902        |             |            | (6.675)        |
| Currency Option                   |               |             |            |                |
| Foreign currency future           |               |             |            |                |
| Foreign currency forward purchase |               |             |            |                |
| <b>TOTAL</b>                      | <b>25.902</b> | <b>-</b>    | <b>-</b>   | <b>(6.675)</b> |
| Less current portion              |               |             |            |                |
| IRS                               | 25.902        | -           |            | (6.071)        |
| Currency Option                   |               |             |            |                |
| Foreign currency future           |               |             |            |                |
| Foreign currency forward purchase |               |             |            |                |
| <b>Non-current portion</b>        | <b>25.902</b> | <b>-</b>    | <b>-</b>   | <b>(6.071)</b> |
| <b>Current portion</b>            | <b>-</b>      | <b>-</b>    | <b>-</b>   | <b>(604)</b>   |

Financial instruments existing at 31/12/07 refer to 2 interest rate swap agreements signed to protect interest rates on existing medium/long-term loans.

**NOTE 12.15**

| Cash                           | 31/12/07          | 31/12/06          |
|--------------------------------|-------------------|-------------------|
| Cash and cheques               | 21.390            | 412.369           |
| Bank accounts                  | 12.167.507        | 14.057.791        |
| Other short-term bank deposits |                   |                   |
| <b>TOTAL</b>                   | <b>12.188.897</b> | <b>14.470.160</b> |

This item accounts for 12,189 thousand euro, against 14,470 thousand Euro at 31/12/2007 and consists of the entire sum of cash on hand in the company treasury, and available liquidity in foreign branches and bank and post office accounts.

**NOTE 12.16**

- Capital Stock

Capital stock at 31.12.07 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 course of the year, there were no changes in the amount or composition of the share capital.

- Treasury shares

At the end of 2007, treasury stock amounted to 3,000 shares with a weighted average price of 29,2934 Euro each, for a total value of 88 thousand Euro.

- Legal reserve

The item stands at 2, 300 thousand Euro and did not change during the course of 2007. It is equal to one fifth of share capital.

- Other reserves

The item "Others" is composed as follows (17,019 thousand Euro).

- ◊ - Extraordinary reserve

This item amounts to 1,354 thousand Euro (against the 1,184 thousand Euro 31/12/2006) and includes the utilization of 170 thousand Euro to cover the result of the 2006 financial year of the parent company.

- ◊ Share premium reserve

This item is generated by the price premium on the issue of new shares with respect to the nominal value equal to Euro 2,5.

The amount equal to 15,665 thousand Euro on 31/12/2007 did not change with respect to the previous year.

- Earnings carried forward

This amount, which totals less than 1,578 thousand Euro decreased by 24 thousand Euro with respect to 31/12/2006 as a result of capital losses and gains generated as a result of the acquisition or transfer of treasury shares.

In addition, the amounts relative to differences in accounting methods on the date of IFRS transition are also included; these refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

- Earnings for the year

The item refers to various payables amounting to 7,517 thousand Euro compared with 3,158 thousand Euro on 31/12/2006.

## NOTE 12.17

| Payables due to banks and other loans            | 31/12/07          | 31/12/06          |
|--------------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                   |                   |                   |
| Bank overdrafts                                  | 332.805           | 164.914           |
| Short-term payables for recourse discount trans. | -                 | 273.699           |
| Financial leasing                                | 199.674           | 199.663           |
| Short-term payables for bank loans               | 3.921.970         | 4.257.487         |
| Short-term payables for other loans              | 88.562            | 87.135            |
| <b>TOTAL</b>                                     | <b>4.543.011</b>  | <b>4.982.898</b>  |
| <b>Non-current</b>                               |                   |                   |
| Long-term payables for recourse discount trans.  | -                 | 110.317           |
| Financial leasing                                | 268.842           | 468.516           |
| Long-term payables for bank loans                | 11.204.792        | 10.547.815        |
| Long-term payables for other loans               | 465.043           | 553.605           |
| <b>TOTAL</b>                                     | <b>11.938.677</b> | <b>11.680.253</b> |

| Payables due to banks and other loans, movement  | Balance 31/12/06  | Creation         | Repayments         | Reclass.           | Net change     | Balance 31/12/07  |
|--------------------------------------------------|-------------------|------------------|--------------------|--------------------|----------------|-------------------|
| <b>Current</b>                                   |                   |                  |                    |                    |                |                   |
| Bank overdrafts                                  | 164.914           |                  |                    |                    | 167.891        | 332.805           |
| Short-term payables for recourse discount trans. | 273.699           |                  | (384.016)          | 110.317            |                | -                 |
| Financial leasing                                | 199.663           |                  | (199.663)          | 199.674            |                | 199.674           |
| Short-term payables for bank loans               | 4.257.487         | 421.053          | (4.678.540)        | 3.921.970          |                | 3.921.970         |
| Short-term payables for other loans              | 87.135            |                  | (87.135)           | 88.562             |                | 88.562            |
| <b>TOTAL</b>                                     | <b>4.982.898</b>  | <b>421.053</b>   | <b>(5.349.354)</b> | <b>4.320.523</b>   | <b>167.891</b> | <b>4.543.011</b>  |
| <b>Non-current</b>                               |                   |                  |                    |                    |                |                   |
| Long-term payables for recourse discount trans.  | 110.317           |                  |                    | (110.317)          |                | -                 |
| Financial leasing                                | 468.516           |                  |                    | (199.674)          |                | 268.842           |
| Long-term payables for bank loans                | 10.547.815        | 4.578.947        |                    | (3.921.970)        |                | 11.204.792        |
| Long-term payables for other loans               | 553.605           |                  |                    | (88.562)           |                | 465.043           |
| <b>TOTAL</b>                                     | <b>11.680.253</b> | <b>4.578.947</b> | <b>-</b>           | <b>(4.320.523)</b> | <b>-</b>       | <b>11.938.677</b> |

During the year the following new medium-term bank loans were taken out with a total of €5.000,000:

- Second installment of 2 thousand Euro relative to a loan of 4 thousand Euro issued by Banca Intesa in October 2006 for five years; 3-month EURIBOR rate +0.75; repayment in fixed-sum quarterly installments;
- 3 thousand Euro loan issued by Fortis Bank for 5 years; 6-month EURIBOR rate +0.65; repayment in fixed-sum quarterly installments;

In accordance with IAS 17, it is disclosed that the minimum payments deriving from financial leasing (including payments owed for interest and redemption) were €199,000 within one year and €269,000 between one and five years.

## NOTE 12.18

| Employee benefits              | 31/12/07         | 31/12/06         |
|--------------------------------|------------------|------------------|
| Employees' Severance Fund      | 2.839.476        | 3.426.816        |
| Fidelity premium               | 530.280          | 508.569          |
| <b>Total employee benefits</b> | <b>3.369.756</b> | <b>3.935.385</b> |

*Employees' Severance Fund* refers to mandatory indemnities due to employees during their working life and paid on termination of their employment. This indemnity is considered a defined benefit fund, subject to actuarial valuation with regard to future benefits and to benefits already paid.

Following the modifications implemented with respect to the Employee Severance Fund (ESF) by the law of 27 December 2006 (2007 Financial Act) and by subsequent Decrees and Regulations issued in the first months of 2007, only the liability relative to accrued ESF which remained in the company was valued for IAS purposes given that the accrued quota was paid to a separate entity (complementary pension fund, or FONDINPS). As a result of these payments, the company will no longer retain obligations linked to employment activities which are implemented in the future by the employee.

ESF contributions have been paid—as of 1 January 2007—to the Treasury Fund managed by INPS, even for those parties which decided to retain their ESF within the company and which is therefore subject to social security regulations. This fund, in accordance with Article 1, paragraph 5, of the 2007 Financial Act, guarantees the disbursement of ESF payments for employees in the



private sector, in compliance with Article 2120 of the Italian Civil Code and in proportion to the quota of payments made"

As a result, it became necessary to implement actuarial calculations which exclude the component relative to future salary increases. The difference resulting from the new calculation with respect to the old one—which was valued at 492 thousand Euro—has been handled as a “curtailment”, in accordance with that defined in paragraph 109 of IAS 19, and therefore booked as a proceed in the income statement of the year.

Here are the movements of this item during the year:

| <b>Employees' Severance Fund</b>                   | <b>31/12/07</b>  | <b>31/12/06</b>  |
|----------------------------------------------------|------------------|------------------|
| <b>Opening liabilities</b>                         | <b>3.426.816</b> | <b>3.185.609</b> |
| Severance indemnities paid during period           | (261.209)        | (453.558)        |
| Other movements                                    | 695              | 60.178           |
| Reduction ex reform                                | (492.455)        |                  |
| Ptn. of Employees' Sev. trans.to Funds & INPS      |                  | 60.105           |
| Employee benefit costs on current services         | 25.804           | 437.433          |
| Financial expenses                                 | 139.825          | 137.049          |
| <b>Total recorded in Income Statement</b>          | <b>(326.826)</b> | <b>634.587</b>   |
| <b>Total closing liabilities-Em.ees' Sev. Fund</b> | <b>2.839.476</b> | <b>3.426.816</b> |

| <b>Fidelity Premium</b>                             | <b>31/12/07</b> | <b>31/12/06</b> |
|-----------------------------------------------------|-----------------|-----------------|
| <b>Opening liabilities</b>                          | <b>508.569</b>  | <b>431.226</b>  |
| Decreases                                           |                 |                 |
| Allocations                                         | 21.711          | 77.343          |
| <b>Total recorded in Income Statement</b>           | <b>21.711</b>   | <b>77.343</b>   |
| <b>Total closing liabilities - Fidelity Premium</b> | <b>530.280</b>  | <b>508.569</b>  |

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

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

| <b>Actuarial assumptions</b>              | <b>31/12/07</b> | <b>31/12/06</b> |
|-------------------------------------------|-----------------|-----------------|
| Annual discount rate                      | 5,5%            | 4,6%            |
| Annual inflation rate                     | 2,0%            | 2,0%            |
| Annual pay increase rate                  | -               | 3,5%            |
| Annual rate of increase of severance fund | 3,0%            | 3,0%            |

The demographic hypotheses used for actuarial evaluation include:

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

**NOTE 12.19**

| Medium/long-term provisions for risk | Cust. agent ind.prov. | TOTAL          |
|--------------------------------------|-----------------------|----------------|
| <b>01/01/2006</b>                    | <b>28.000</b>         | <b>28.000</b>  |
| Income statement:                    | -                     | -              |
| - Allocations                        | 5.500                 | <b>5.500</b>   |
| - Transfers back of excess provs.    |                       | -              |
| Utilizations in the period           |                       | -              |
| <b>31/12/2006</b>                    | <b>33.500</b>         | <b>33.500</b>  |
| Income statement:                    | -                     | -              |
| - Allocations                        | 15.747                | <b>15.747</b>  |
| - Transfers back of excess provs.    |                       | -              |
| Utilizations in the period           | (6.512)               | <b>(6.512)</b> |
| <b>31/12/2007</b>                    | <b>42.735</b>         | <b>42.735</b>  |

| Short-term provisions for risks   | Guarantee fund   | Prov. for litigation risks | TOTAL              |
|-----------------------------------|------------------|----------------------------|--------------------|
| <b>01/01/2006</b>                 | <b>1.896.000</b> | -                          | <b>1.896.000</b>   |
| Income statement:                 |                  |                            |                    |
| - Allocations                     | 2.358.000        |                            | <b>2.358.000</b>   |
| - Transfers back of excess provs. |                  |                            |                    |
| Utilizations in the period        | (1.896.000)      |                            | <b>(1.896.000)</b> |
| <b>31/12/2006</b>                 | <b>2.358.000</b> | -                          | <b>2.358.000</b>   |
| Income statement:                 |                  |                            | -                  |
| - Allocations                     | 2.714.000        | 100.000                    | <b>2.814.000</b>   |
| - Transfers back of excess provs. |                  |                            |                    |
| Utilizations in the period        | (2.358.000)      |                            | <b>(2.358.000)</b> |
| <b>31/12/2007</b>                 | <b>2.714.000</b> | <b>100.000</b>             | <b>2.814.000</b>   |

**Guarantee fund**

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

**Provision for agents' customer indemnity**

This represents the indemnity payables matured at year-end towards agents due for interruption to the agency relationship, in accordance with current legislation.

**Provision for litigation risks**

This refers to an allocation for a legal dispute underway with a French customer.

## NOTE 12.20

The items for fiscal liabilities deriving from deferred taxes can be summed up as follows:

| Deferred tax liabilities                 | 31/12/07         | 31/12/06         |
|------------------------------------------|------------------|------------------|
| Initial balance                          | 1.661.121        | 2.014.840        |
| Utilizations during the year             | (605.552)        | (898.235)        |
| Provisions raised during the year        | 37.682           | 544.516          |
| <b>Total deferred income tax reserve</b> | <b>1.093.251</b> | <b>1.661.121</b> |

The main items for tax liabilities deriving from deferred taxes can be summed up as follows:

| Tax assets for prepaid taxes | Deferred taxability | Deferred tax liabilities |
|------------------------------|---------------------|--------------------------|
| Grants                       | 2.880               | 904                      |
| IAS adjustments              | 687                 | 189                      |
| <b>TOTAL</b>                 | <b>3.567</b>        | <b>1.093</b>             |

Calculations were adjusted on the basis of the new tax rates which will become effective as of 2008.

## NOTE 12.21

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

| Trade and other payables             | 31/12/07          | 31/12/06          |
|--------------------------------------|-------------------|-------------------|
| Trade payables                       | 23.326.165        | 17.805.583        |
| Amounts due to subsidiaries          | 4.929.975         | 5.944.723         |
| Amounts due to assoc.parties         | -                 | 15.120            |
| <b>Total trade payables</b>          | <b>28.256.140</b> | <b>23.765.426</b> |
| Advances from customers              | 8.554.554         | 5.299.076         |
| <b>Total advances from customers</b> | <b>8.554.554</b>  | <b>5.299.076</b>  |
| Social security payables             | 1.211.934         | 1.045.252         |
| Amounts due to employees             | 1.920.952         | 1.702.274         |
| Other short-term payables            | 353.167           | 284.486           |
| Accrued liab.&deferred income        | 398.717           | 414.231           |
| <b>Total Other payables</b>          | <b>3.884.770</b>  | <b>3.446.243</b>  |

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

“Advances from customers” contains advances on orders for machines that have not been delivered, and advances generated by application of IAS 18 for machines that have been delivered but not yet accepted by the end customer and thus cannot be entered among revenues. The increase since 2006 can be mainly ascribed to this second category.

Payables to employees refers to deferred and non-matured compensation for leave not taken, the variable quota of the production bonus and incentives matured by managers and sales personnel and for travel expenses advanced by and owed to employees.

**NOTE 12.22**

This item totals 6,604 thousand Euro (3,667 thousand Euro at 31/12/06) and includes:

| <b>Tax liabilities for current taxes</b> | <b>31/12/07</b>  | <b>31/12/06</b>  |
|------------------------------------------|------------------|------------------|
| VAT - foreign branches                   | 114.039          | 98.801           |
| Group corporate tax (IRES)               | -                | 1.117.650        |
| Regional Trade Tax (IRAP)                | 194.765          | 211.626          |
| Corporate tax (IRES)                     | 5.726.378        | 1.830.642        |
| Income tax deductions (IRPEF)            | 495.140          | 408.163          |
| Tax liabilities - disputed               | 73.891           |                  |
| <b>TOTAL</b>                             | <b>6.604.213</b> | <b>3.666.882</b> |

The increase is mainly due to the higher income tax generated by the increased profitability.

**NOTE 12.23**

Revenues from the sales of goods are made up as follows:

| <b>Revenues from sales and services</b> | <i>in thousands of euro</i> |             |               |            |               |            |                          |            |                   |           |
|-----------------------------------------|-----------------------------|-------------|---------------|------------|---------------|------------|--------------------------|------------|-------------------|-----------|
|                                         | <b>TOTAL</b>                |             | <b>ITALY</b>  |            | <b>EUROPE</b> |            | <b>REST OF THE WORLD</b> |            | <b>N. AMERICA</b> |           |
|                                         | value                       | %           | value         | %          | value         | %          | value                    | %          | value             | %         |
| Laser systems                           | 96.025                      | 86%         | 25.433        | 23%        | 52.250        | 47%        | 11.884                   | 10%        | 6.458             | 6%        |
| Customer & other services               | 15.377                      | 14%         | 5.791         | 6%         | 7.030         | 6%         | 1.419                    | 1%         | 1.137             | 1%        |
| <b>TOTAL</b>                            | <b>111.402</b>              | <b>100%</b> | <b>31.224</b> | <b>29%</b> | <b>59.280</b> | <b>53%</b> | <b>13.303</b>            | <b>11%</b> | <b>7.595</b>      | <b>7%</b> |

Revenues in 2007 increased by 19% with respect to the €93,676,000 of the previous year. The overall number of machines delivered rose, continuing shift towards 2D systems, with a strong increase in related systems and consequently higher average unit sale prices.

| <b>Other operating income</b>                               | <b>31/12/07</b>  | <b>31/12/06</b>  |
|-------------------------------------------------------------|------------------|------------------|
| Grants for research projects                                | 163.600          | 838.200          |
| Income for R&D activities                                   | 550.000          |                  |
| Extraordinary income                                        | 321.023          | 428.210          |
| Services rendered & costs recharged to PRIMA ELECTRONICS    | 268.000          | 106.000          |
| Services rendered & costs recharged to PRIMA INDUSTRIE UK   | 43.000           | -                |
| Services rendered & costs recharged to PRIMA INDUSTRIE GmbH | 64.000           | -                |
| Services rendered & costs recharged to PRIMA SCANDINAVIA    | 43.000           | -                |
| Services rendered & costs recharged to PRIMA North America  | 202.418          | -                |
| Insurance refunds                                           | 4.211            | 12.833           |
| Income not traceable to TFR reform                          | 492.455          | -                |
| Other                                                       | 183.136          | 183.299          |
| <b>TOTAL</b>                                                | <b>2.334.843</b> | <b>1.568.542</b> |

The research grants recorded in the 2007 income statement relate to the portions of forgivable loans for research and development, accrued during 2007 for the PAMELA project (€43,000) and the RESALT project (€120,000).

Proceeds for R&D activities totaling 550 thousand Euro refer to operations implemented with respect to the Sintesi Consortium in relation to the Program Contract with the Ministry of Productive Activities - Puglia Region.

Services and cost redebiting with respect to the various companies of the Group are ascribable to services provided by the parent company to subsidiaries in relation to accounting, IT and managerial assistance.

Non-recurring proceeds of 492 thousand Euro refer to the difference resulting from regulatory changes applicable to the ESF which excludes the component relative to future salary increases from its actuarial calculation.

Please see Note 12.17 for more information.

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

Sundry income refers to 30 thousand Euro of rental receivables on leases to Prima Industrie UK, capital gains from the disposal of company goods totaling 15 thousand Euro and other minor proceeds totaling 136 thousand Euro.

#### **NOTE 12.24 Increases in for internal work**

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Capitalization for increases for internal work was €135,000 in 2007 against €97,000 in the previous year.

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

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**NOTE 12.25**

| <b>Personnel costs</b>            | <b>31/12/07</b>   | <b>31/12/06</b>   |
|-----------------------------------|-------------------|-------------------|
| Salaries and wages                | 12.841.593        | 11.345.097        |
| Social security contributions     | 4.030.937         | 3.555.657         |
| Employees' severance              | 615.639           | 437.433           |
| Provisions for IAS 19 liabilities | 25.804            | 60.105            |
| Fidelity Premium                  | 21.711            | 77.343            |
| Other costs                       | 394.133           | 349.429           |
| <b>TOTAL</b>                      | <b>17.929.817</b> | <b>15.825.064</b> |

Personnel costs rose from 15,825 thousand Euro in 2006, to 17,930 thousand Euro in 2007. The increase is the result of the growth in the number of employees.

During the year the Company hired a number of new employees, although it endeavored to keep the increase in costs to a minimum. Furthermore, it is reminded that, given that the Company operates in a high-tech sector, employees are, on average, more specialized and thus the labor costs are higher than the average industry standard.

Changes during the year in the number of employees are detailed by category (Collegno production facility and secondary facility in Bari) below:

| <b>Movements in personnel</b> | <b>31/12/06</b> | <b>Hired</b> | <b>Ceased employment</b> | <b>Promotions</b> | <b>31/12/07</b> | <b>Year average</b> |
|-------------------------------|-----------------|--------------|--------------------------|-------------------|-----------------|---------------------|
| Executives                    | 12              | -            | -                        | -                 | 12              | 12                  |
| Front-line                    | 11              | -            | (1)                      | 3                 | 13              | 11                  |
| Managers                      | 11              | -            | -                        | +3 (3)            | 11              | 11                  |
| Office staff                  | 166             | 24           | (15)                     | +12(3)            | 184             | 158                 |
| Office juniors                | 1               | 1            | -                        | -                 | 2               | 1                   |
| Intermediate                  | 2               | -            | -                        | -                 | 2               | 2                   |
| Production workers            | 73              | 14           | (3)                      | (12)              | 72              | 73                  |
| <b>TOTAL</b>                  | <b>276</b>      | <b>39</b>    | <b>(19)</b>              |                   | <b>296</b>      | <b>268</b>          |

In terms of staff employed at branches, the number rose by 2 units, one in the French branch and one in the Spanish branch.

The overall number of employees in our branches is 30 (9 in the French branch, 18 in the Spanish branch and 3 at the Swiss branch).

**NOTE 12.26**

| <b>Depreciation</b>     | <b>31/12/07</b> | <b>31/12/06</b> |
|-------------------------|-----------------|-----------------|
| Intangible fixed assets | 191.570         | 116.160         |
| Tangible fixed assets   | 551.189         | 537.859         |
| <b>TOTAL</b>            | <b>742.759</b>  | <b>654.019</b>  |

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

For more details, see Chapter 11, Description of Accounting Principles.

**NOTE 12.27**

| <b>Other operating costs</b>                                               | <b>31/12/07</b>   | <b>31/12/06</b>   |
|----------------------------------------------------------------------------|-------------------|-------------------|
| External manufacturing                                                     | 9.844.002         | 6.750.266         |
| Travel expenses                                                            | 2.952.155         | 2.484.436         |
| Transport and custom duties                                                | 2.575.428         | 2.163.774         |
| Commissions                                                                | 1.689.473         | 1.415.610         |
| Temporary work                                                             | 357.055           | 233.407           |
| Technical, legal, fiscal & administrative consultation fees                | 2.521.456         | 1.437.172         |
| Advertising and promotion                                                  | 785.832           | 440.094           |
| Third-party maintenance                                                    | 578.709           | 444.161           |
| Electricity, telephone, etc.                                               | 925.686           | 644.566           |
| Insurance                                                                  | 388.032           | 327.084           |
| Directors' remuneration                                                    | 846.183           | 719.000           |
| Statutory auditors' remuneration                                           | 99.685            | 104.779           |
| Other service expenses                                                     | 1.910.237         | 1.701.020         |
| Rent                                                                       | 365.163           | 342.114           |
| Hire & other third-party costs                                             | 716.441           | 615.475           |
| Appropriations to prov. for contract.risks & charges (net of utilizations) | 356.000           | 462.000           |
| Provision for doubtful debts                                               | 664.414           | 611.000           |
| Prov. raised for litigation risks                                          | 100.000           | -                 |
| Extraordinary liabilities                                                  | 357.452           | 387.506           |
| Taxes and duties                                                           | 166.135           | 69.749            |
| Other operating costs                                                      | 366.445           | 391.811           |
| <b>TOTAL</b>                                                               | <b>28.565.983</b> | <b>21.745.024</b> |

The 6,821 thousand Euro increase in operating costs compared to 31/12/06 is mainly due to the increased volume of sales in 2007.

Provisions to the doubtful loans were made to bring the fund into line with nonperforming loans existing at the end of the year. In particular, it takes account of a specific allocation made to take account of a distributor undergoing liquidation.

The most significant *Other service costs* include:

- labor costs totaling 591 thousand Euro;
- translation costs totaling 194 thousand euro;
- personnel recruitment costs totaling 76 thousand Euro
- entertainment costs totaling 126 thousand Euro.

*Other operating costs* include subscriptions to books, journals and associations.

## NOTE 12.28

| Financial income and expenses             | 31/12/07           | 31/12/06           |
|-------------------------------------------|--------------------|--------------------|
| Financial expenses - subsidiaries         | (12.157)           | (51.171)           |
| Interest on short-term bank loans         | (1.082)            | (1.022)            |
| Interest on M/L-term loans                | (723.950)          | (605.873)          |
| Interest and trade allowances             | (123.909)          | (322.318)          |
| Interest on leasing agreements            | (34.919)           | (39.053)           |
| Interest paid on Employees' Severance     | (139.825)          | (137.049)          |
| Writedown of derivatives                  | (6.165)            | -                  |
| Other                                     | (187.467)          | (258.386)          |
| <b>Total financial expenses</b>           | <b>(1.229.474)</b> | <b>(1.414.872)</b> |
| Dividend from PRIMA ELECTRONICS           | 600.000            | 600.000            |
| Dividend from PRIMA North America         | 2.268.259          | -                  |
| Financial income from subsidiaries        | 166.234            | 161.395            |
| Interest received on bank accounts        | 336.635            | 145.339            |
| Interest received on receivables          | 2.049              | 1.218              |
| Interest income from customers            | 139.534            | 379.319            |
| Income from derivatives                   | 32.577             | 4.700              |
| Other                                     | 20.914             | 9.515              |
| <b>Total financial income</b>             | <b>3.566.202</b>   | <b>1.301.486</b>   |
| Negative forex differences                | (388.288)          | 563.445            |
| Positive forex differences                | 418.540            | (460.343)          |
| <b>Total foreign exchange differences</b> | <b>30.252</b>      | <b>103.102</b>     |
| <b>Net financial income</b>               | <b>2.366.980</b>   | <b>(10.284)</b>    |

## NOTE 12.29

| Net profit/loss of associated companies & Joint Ventures            | 31/12/07         | 31/12/06         |
|---------------------------------------------------------------------|------------------|------------------|
| Shenyang PRIMA Laser Machine Co. Ltd.                               | (345.659)        | (239.984)        |
| Shanghai Unity PRIMA Laser Machinery Co. Ltd.                       | -                | -                |
| SNK PRIMA Co. Ltd.                                                  | -                | -                |
| <b>Net profit/loss of associated companies &amp; Joint Ventures</b> | <b>(345.659)</b> | <b>(239.984)</b> |

The item shows the results of the equity method valuation of associated companies and joint ventures with long-term losses in value.



**NOTE 12.30**

| Current tax & deferred taxes    | 31/12/07           | 31/12/06           |
|---------------------------------|--------------------|--------------------|
| IRAP (Regional trade tax)       | (1.044.704)        | (868.521)          |
| IRES (Corporation tax)          | (4.156.354)        | (1.830.642)        |
| Group IRES                      | (1.593.915)        | (1.121.037)        |
| Prepaid                         | (54.239)           | (1.074.856)        |
| Deferred                        | 567.870            | 353.719            |
| Income - IRES tax consolidation | 1.593.915          | 1.121.037          |
| Income - tax consolidation      |                    |                    |
| <b>TOTAL</b>                    | <b>(4.687.427)</b> | <b>(3.420.300)</b> |

The increase is put down to the increased profitability of the company.

| Reconciliation between ordinary and actual tax rates  | Taxable amount | Income tax   | Rate %       |
|-------------------------------------------------------|----------------|--------------|--------------|
| RESULT BEFORE TAX                                     | 12.205         | 4.028        | 33,00        |
| LOSSES IN SHAREHOLDINGS                               | 346            | 114          | 0,93         |
| DIVIDENDS                                             | (2.725)        | (899)        | -7,37        |
| INCREASING PERMANENT DIFFERENCES                      | 1.002          | 331          | 2,71         |
| DECREASING PERMANENT DIFFERENCES                      | (26)           | (9)          | -0,07        |
| TEMPORARY DIFF. FOR UTILIZATION/RAISING OF PROVISIONS | 1.191          | 393          | 3,22         |
| TEMPORARY DIFF. FOR GRANTS RECEIVED                   | 909            | 300          | 2,46         |
| TEMPORARY DIFF. - SHAREHOLDING LOSSES IN PREV. YR     | (676)          | (223)        | -1,83        |
| OTHER TEMPORARY DIFFERENCES                           | 376            | 124          | 1,02         |
| <b>TAXABLE AMOUNT - IRES (CORPORATE TAX)</b>          | <b>12.602</b>  | <b>4.159</b> | <b>34,08</b> |
| UTILIZATION OF PREVIOUS LOSSES                        | -              | -            | 0,00         |
| GRATUITIES                                            | (7)            | (2)          | -0,02        |
| <b>TAXES FOR THE FIN. YR.</b>                         | <b>12.595</b>  | <b>4.157</b> | <b>34,06</b> |
| <b>TOTAL CORPORATE TAX (IRES)</b>                     | <b>-</b>       | <b>4.157</b> | <b>34,06</b> |

|                                              | Taxable amount  | Rate %      | IRAP (Regional trade tax) |
|----------------------------------------------|-----------------|-------------|---------------------------|
| VALUE OF PRODUCTION                          | 116.399         |             |                           |
| INCREASES/DECREASES                          | 1.792           |             |                           |
| <b>TOTAL POSITIVE ITEMS</b>                  | <b>118.191</b>  |             |                           |
| COSTS OF PRODUCTION (EXCLUDING LABOUR COSTS) | (88.286)        |             |                           |
| INCREASES/DECREASES                          | 2.642           |             |                           |
| <b>TOTAL NEGATIVE ITEMS</b>                  | <b>(85.644)</b> |             |                           |
| TOTAL NET VALUE OF PRODUCTION                | 32.547          |             |                           |
| DEDUCTION OF PERSONNEL COSTS, R&D, ETC.      | (5.387)         |             |                           |
| TAXABLE AMOUNT                               | 27.160          |             |                           |
| DEDUCTION FOR FOREIGN COMPENSATION           | (2.579)         |             |                           |
| <b>TAXES FOR THE FIN. YR.</b>                | <b>24.581</b>   | <b>4,25</b> | <b>1.045</b>              |
| <b>TOTAL REGIONAL TRADE TAX (IRAP)</b>       |                 |             | <b>1.044,69</b>           |

The calculation of taxes did not take into account the R&D tax credit pursuant to articles 280, 281, 282, Article 1 of Law no. 296 of 27/12/2006 (2007 Financial Act) given that the relative Ministerial Decree has still not been published on the Official Gazette.

## NOTE 12.31 Contractual commitments

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

| Contractual Commitments at 31/12/07     | Duration              | Thousands EURO |
|-----------------------------------------|-----------------------|----------------|
| PRIMA INDUSTRIE S.p.A: Collegno plant   | 01/10/2002-30/09/2008 | 376            |
| PRIMA INDUSTRIE S.p.A: Collegno Offices | 01/10/2007-30/09/2013 | 773            |
| <b>TOTAL</b>                            |                       | <b>1.149</b>   |
| Within 1 year                           |                       | 284            |
| Beyond 1 year                           |                       | 865            |
| <b>TOTAL</b>                            |                       | <b>1.149</b>   |

The lease agreement relative to the facilities in Collegno (TO) have been stipulated at the beginning of October 2002 and will expire on 20 September 2008.

The lease agreement relative to the offices in Collegno (TO) have been stipulated on 1 October 2007 and will expire on 30 September 2008.

## NOTE 12.32 Transactions with associated parties

Relations with associated parties are generally represented by transactions with companies controlled directly or indirectly by the Company or with joint ventures regulated at market conditions considered normal in the reference market, in view of the characteristics of the assets and the services rendered.

The impact of these transactions on individual items in the 2007 financial statements, already highlighted in the supplementary tables of the balance sheet and income statement, drawn up in accordance with CONSOB Resolution no. 15519 of 27 July 2006, is summarized in the following table:

| (transactions in thousands of Euro)   |                  |                   |                |              |
|---------------------------------------|------------------|-------------------|----------------|--------------|
| Counterparty                          | Finan. receivab. | Trade receivables | Trade payables | Other payab. |
| PRIMA ELECTRONICS S.p.A.              | 4.500            | 739               | 1.896          |              |
| PRIMA INDUSTRIE GmbH                  |                  | 5.112             | 120            |              |
| PRIMA NORTH AMERICA Inc.              |                  | 2.156             | 2.829          |              |
| PRIMA INDUSTRIE UK                    | 626              | 1.425             | 31             |              |
| PRIMA SCANDINAVIA AB                  |                  | 1.423             | 21             |              |
| PRIMA POLSKA Sp.z.o.o                 |                  | 88                | 33             |              |
| SHENYANG PRIMA LASER MACHINE CO. Ltd. |                  | 380               |                |              |
| STRATEGIC MANAGEMENT                  |                  |                   |                | 239          |
| OTHER ASSOC. PARTIES                  |                  |                   |                |              |
| <b>TOTAL</b>                          | <b>5.126</b>     | <b>11.323</b>     | <b>4.930</b>   | <b>239</b>   |

| Counterparty                                | Revenues      | Other operating income | Financial income | Purchases     | Personnel costs | Other operating costs | Financial expenses |
|---------------------------------------------|---------------|------------------------|------------------|---------------|-----------------|-----------------------|--------------------|
| PRIMA ELECTRONICS SPA                       | 336           | 11                     | 130              | 4.755         |                 |                       | 12                 |
| PRIMA INDUSTRIE GmbH                        | 14.436        | 83                     |                  | 11            |                 | 172                   |                    |
| PRIMA NORTH AMERICA INC.                    | 7.618         | 226                    |                  | 11.837        |                 | 64                    |                    |
| PRIMA INDUSTRIE UK                          | 4.583         | 76                     | 36               | 26            |                 | 36                    |                    |
| PRIMA SCANDINAVIA AB                        | 3.424         | 43                     |                  |               | 19              | 142                   |                    |
| PRIMA POLSKA Sp.z.o.o                       | 88            |                        |                  |               |                 | 28                    |                    |
| SHENYANG PRIMA LASER MACHINE CO. LTD        | 403           |                        |                  |               |                 |                       |                    |
| SHANGHAI UNITY PRIMA LASER MACHINERY CO.LTD | 14            |                        |                  |               |                 |                       |                    |
| STRATEGIC MANAGEMENT                        |               |                        |                  |               | 505             | 846                   |                    |
| OTHER ASSOC. PARTIES                        |               |                        |                  |               |                 |                       |                    |
| <b>TOTAL</b>                                | <b>30.902</b> | <b>439</b>             | <b>166</b>       | <b>16.629</b> | <b>524</b>      | <b>1.288</b>          | <b>12</b>          |

In terms of the impact on the financial flows of relationships with associated parties, these were not represented in a table, since they are almost entirely linked to transactions with companies that are directly or indirectly controlled by the Company, as illustrated previously.

The above table does not contain entries deriving from national consolidated taxation, since they do not represent actual exchanges, but rather only those originating from the financial procedures provided for in national taxation legislation.

See page 140 for explanatory table of “compensation paid to directors, statutory auditors, general managers and executives with strategic responsibilities”.

### **NOTE 12.33 Significant non-recurring events and transactions**

In accordance with CONSOB Communication dated 28 July 2006, the Company performed no significant non-recurring transactions.

### Note 12.34 Transactions deriving from atypical and/or unusual operations

In accordance with CONSOB Communication dated 28 July 2007, during 2006 the company performed no atypical and/or unusual transaction, as defined by the Communication, which states that atypical and/or unusual transactions are those operations whose size/importance, nature of the counterparties, object, price transfer determination method and timing (proximity to close of the financial year) can give rise to doubts regarding: the correctness/completeness of the information in the financial statements, conflict of interests, safeguard of company assets, protection of minority shareholders.

### NOTE 12.35 Net Financial Position

| values in thousands of euro                                        | 31/12/2007     | 31/12/2006     |
|--------------------------------------------------------------------|----------------|----------------|
| A CASH                                                             | 12.189         | 14.470         |
| B OTHER CASH EQUIVALENTS                                           | 279            | 268            |
| C SECURITIES HELD FOR TRADING                                      | -              | -              |
| <b>D CASH (A+B+C)</b>                                              | <b>12.468</b>  | <b>14.738</b>  |
| E CURRENT FINANCIAL RECEIVABLES                                    | -              | -              |
| F CURRENT BANK LOANS                                               | 333            | 438            |
| G CURRENT PORTION OF NON-CURRENT INDEBTEDNESS                      | 3.922          | 4.258          |
| H OTHER CURRENT FINANCIAL PAYABLES                                 | 288            | 288            |
| <b>I CURRENT FINANCIAL INDEBTEDNESS (F+G+H) (LIQUID FUNDS)</b>     | <b>4.543</b>   | <b>4.984</b>   |
| <b>J CURRENT NET FINANCIAL INDEBTEDNESS (LIQUID FUNDS) (I-E-D)</b> | <b>(7.925)</b> | <b>(9.754)</b> |
| K NON-CURRENT BANK LOANS                                           | 11.205         | 10.658         |
| L BONDS ISSUED                                                     | -              | -              |
| M OTHER NON-CURRENT PAYABLES                                       | 734            | 1.028          |
| N OTHER NON-CURRENT RECEIVABLES                                    | 26             | -              |
| <b>O NON-CURRENT NET FINANCIAL INDEBTEDNESS (K+L+M-N)</b>          | <b>11.913</b>  | <b>11.686</b>  |
| <b>P NET FINANCIAL INDEBTEDNESS (J+O)</b>                          | <b>3.988</b>   | <b>1.932</b>   |

Some of the medium-term loans in existence provide for covenants, normally based on the ratio between the Net Financial Position and EBITDA and on the ratio between the Net Financial Position and Shareholders' Equity. The company is fully in compliance with these covenants as of 31/12/2007.

## COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

AS REQUIRED BY ARTICLE 78 OF CONSOB REGULATION NO. 11971 APPROVED ON 5/14/99 A SUMMARY OF THE COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND THE GENERAL MANAGER BY PRIMA INDUSTRIE S.P.A. AND THE SUBSIDIARY COMPANIES, RELATING TO THE PERSONS WHO HELD SUCH APPOINTMENTS DURING THE YEAR 2007, IS PROVIDED HEREINBELOW (FROM 1 JANUARY TO 31 DECEMBER 2007). (INFORMATION EXPRESSED IN THOUSANDS OF EURO)

| Surname and name            | Position                                                                   | Period during which position was held  | Date appointment ends             | Remuneration for appointment in the co. preparing the Fin.State.(1) | Non-monetary benefits | Bonuses & other incentives |
|-----------------------------|----------------------------------------------------------------------------|----------------------------------------|-----------------------------------|---------------------------------------------------------------------|-----------------------|----------------------------|
| <b>CARBONATO Gianfranco</b> | Chairman of the Board of Directors<br>Managing Director<br>PRIMA INDUSTRIE | 01/01/07-31/12/07<br>01/01/07-31/12/07 | Approv. 2007 Financial Statements | 281.584,93                                                          | Car 3,943.13          | 268.500,00                 |
| <b>D'ISIDORO Sandro</b>     | Director PRIMA INDUSTRIE                                                   | 01/01/07-31/12/07                      | Approv. 2007 Financial Statements | (7) 23.139,73                                                       | -                     | -                          |
| <b>LUGARESI Fabrizio</b>    | Director PRIMA INDUSTRIE                                                   | 01/01/07-13/05/07                      | Approv. 2007 Financial Statements | 4.372,00                                                            | -                     | -                          |
| <b>MAURI Mario</b>          | Director PRIMA INDUSTRIE                                                   | 01/01/07-31/12/07                      | Approv. 2007 Financial Statements | (7) 23.139,73                                                       | -                     | -                          |
| <b>PINCIROLI Marco</b>      | Director PRIMA INDUSTRIE                                                   | 01/01/07-31/12/07                      | Approv. 2007 Financial Statements | 167.084,93                                                          | -                     | -                          |
| <b>PELLEGRINI Pio</b>       | Director PRIMA INDUSTRIE                                                   | 01/06/07-31/12/07                      | Approv. 2007 Financial Statements | (7) 23.139,73                                                       | -                     | -                          |
| <b>PEIRETTI Domenico</b>    | Director PRIMA INDUSTRIE                                                   | 01/01/07-31/12/07                      | Approv. 2007 Financial Statements | 17.084,93                                                           | (3) 3.003,97          | 115.585,00                 |
| <b>BASSO Ezio</b>           | Director PRIMA INDUSTRIE                                                   | 13/05/07-31/12/07                      | Approv. 2007 Financial Statements | 12.712,33                                                           | -                     | -                          |
| <b>DE VESCOVI Stefano</b>   | Director PRIMA INDUSTRIE                                                   | 13/05/07-31/12/07                      | Approv. 2007 Financial Statements | 12.712,33                                                           | -                     | -                          |
| <b>MANSOUR Michael</b>      | Director PRIMA INDUSTRIE                                                   | 13/05/07-31/12/07                      | Approv. 2007 Financial Statements | 12.712,33                                                           | -                     | -                          |
| <b>FORMICA Riccardo</b>     | Chairman-Board of Statutory Auditors                                       | 01/01/07-31/12/07                      | Approv. financial statements 2009 | 37.039,91                                                           | -                     | -                          |
| <b>MOSCA Andrea</b>         | Statutory Auditor                                                          | 01/01/07-31/12/07                      | Approv. financial statements 2009 | 31.385,57                                                           | -                     | -                          |
| <b>PETRIGNANI Roberto</b>   | Statutory Auditor                                                          | 01/01/07-31/12/07                      | Approv. financial statements 2009 | 31.259,90                                                           | -                     | -                          |
| <b>FRIGERIO GianLuigi</b>   | Substitute Auditor                                                         | 01/01/07-31/12/07                      | Approv. financial statements 2009 | -                                                                   | -                     | -                          |
| <b>CODA Roberto</b>         | Substitute Auditor                                                         | 01/01/07-31/12/07                      | Approv. financial statements 2009 | -                                                                   | -                     | -                          |
| <b>BASSO Ezio</b>           | General Manager PRIMA INDUSTRIE                                            | 01/01/07-31/12/07                      | -                                 | -                                                                   | 2.697,48              | 110.114,00                 |
| <b>RATTI Massimo</b>        | Corporate Finance Director                                                 | 01/01/07-31/12/07                      | -                                 | -                                                                   | 2.741,72              | 104.529,00                 |

- (1) DETERMINED ON THE ACCRUAL BASIS
- (2) OF WHICH € 10,000.00 AS COMPENSATION FOR THE OFFICE OF CHAIRMAN OF PRIMA ELECTRONICS AND € 4,613.70 AS COMPENSATION FOR THE ENTIRE YEAR 2007 FOR THE OFFICE OF DIRECTOR OF PRIMA ELECTRONICS € 2,500.00 (5,000.00 PER YEAR, AS OF 01/07/2007) AS COMPENSATION FOR THE OFFICE OF DIRECTOR WITHIN OSAI AND € 7,500.00 (15.000,00 PER YEAR, AS OF 01/07/2007) AS COMPENSATION FOR THE OFFICE OF CHAIRMAN WITHIN OSAI; BENEFITS LINKED TO EMPLOYEE COMPENSATION WITHIN PRIMA ELECTRONICS
- (3) BENEFITS LINKED TO EMPLOYEE COMPENSATION WITHIN PRIMA ELECTRONICS OF WHICH € 35,000.00 PER YEAR AS COMPENSATION FOR THE OFFICE OF CEO OF PRIMA ELECTRONICS AND € 4,613.70 AS COMPENSATION FOR THE ENTIRE YEAR 2007 FOR THE OFFICE OF DIRECTOR WITHIN PRIMA ELECTRONICS - € 2,500.00 AS COMPENSATION FOR THE OFFICE OF CEO OF MLTA FOR THE PERIOD 01/01/07 – 30/06/07 AND 146,023.17 € AS COMPENSATION FOR EMPLOYEE STATUS WITHIN PRIMA ELECTRONICS UP UNTIL 31 DECEMBER 2007 - € 20,000.00 (40,000.00 PER YEAR AS OF 01/07/2007) AS COMPENSATION FOR THE OFFICE OF CEO OF OSAI AND € 2,500.00 (5,000.00 PER YEAR, AS OF 01/07/2007) AS COMPENSATION FOR THE OFFICE OF DIRECTOR WITHIN OSAI.
- (4) OF WHICH € 4,613.70 AS REMUNERATION FOR THE ENTIRE YEAR OF 2007 FOR THE OFFICE OF DIRECTOR WITHIN PRIMA ELECTRONICS- € 3,000.00 PER YEAR AS COMPENSATION FOR THE OFFICE WITHIN PRIMA UK AND € 157,742.39 AS REMUNERATION AS AN EMPLOYEE OF PRIMA INDUSTRIE UNTIL 31 DECEMBER 2007 OF WHICH € 4,613.70 AS REMUNERATION FOR THE ENTIRE YEAR OF 2007 FOR THE OFFICE OF DIRECTOR WITHIN PRIMA ELECTRONICS - € 3,000.00 PER YEAR AS COMPENSATION FOR THE OFFICE WITHIN PRIMA UK - € 1,000 AS COMPENSATION FOR THE OFFICE OF DIRECTOR WITHIN MLTA FOR THE PERIOD FROM 01/01/07 – 30/06/07 - € 132,142.22 AS REMUNERATION AS AN EMPLOYEE OF PRIMA INDUSTRIE UNTIL 31 DECEMBER 2007 – € 2,500.00 (5,000.00 PER YEAR, AS OF 01/07/2007) AS COMPENSATION FOR THE OFFICE OF DIRECTOR WITHIN OSAI.

**HIGHLIGHTS OF THE MOST RECENT FINANCIAL STATEMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES (Sec. 2429 OF THE ITALIAN CIVIL CODE).**

Unless otherwise indicated the information has been prepared by reclassifying the Financial Statements in accordance with the IAS/IFRS

|                                               | PRIMA<br>ELECTRONICS<br>S.p.A. | PRIMA North<br>America Inc. | PRIMA GmbH           | PRIMA<br>Scandinavia<br>AB | PRIMA<br>INDUSTRIE UK<br>Ltd. | PRIMA<br>INDUSTRIE<br>POLSKA<br>Sp.z.o.o. | SNK PRIMA<br>Company Ltd.<br>(1) | Shanghai Unity<br>PRIMA (1) |
|-----------------------------------------------|--------------------------------|-----------------------------|----------------------|----------------------------|-------------------------------|-------------------------------------------|----------------------------------|-----------------------------|
| Currency                                      | Thousands of<br>Euro           | Thousands of<br>USD         | Thousands of<br>Euro | Thousands of<br>SEK        | Thousands of<br>GBP           | Thousands of<br>PLN                       | Thousands of<br>Yen              | Thousands of RMB            |
| Reference period                              | 2007                           | 2007                        | 2007                 | 2007                       | 2007                          | 2007                                      | Half-year at<br>30/09/2007       | 2007                        |
| Line-by-line consolidation                    | YES                            | YES                         | YES                  | YES                        | YES                           | YES                                       | NO                               | NO                          |
| <b>ASSETS</b>                                 |                                |                             |                      |                            |                               |                                           |                                  |                             |
| Fixed assets                                  | 13.864                         | 5.737                       | 223                  | 303                        | 11                            | 4                                         | 3.102                            | 7.657                       |
| Current assets                                | 13.484                         | 31.249                      | 7.906                | 24.908                     | 2.779                         | 719                                       | 20.418                           | 273.641                     |
| Prepaym.&accrued income                       | -                              | -                           | 16                   | -                          | -                             | -                                         | -                                | -                           |
| <b>TOTAL ASSETS</b>                           | <b>27.348</b>                  | <b>36.986</b>               | <b>8.145</b>         | <b>25.211</b>              | <b>2.790</b>                  | <b>723</b>                                | <b>23.520</b>                    | <b>281.298</b>              |
| <b>LIABILITIES</b>                            |                                |                             |                      |                            |                               |                                           |                                  |                             |
| Shareholders' equity                          | 9.587                          | 23.606                      | 1.008                | 6.382                      | 411                           | 283                                       | 23.418                           | 76.680                      |
| Provisions for risks and charges              | 280                            | 1.863                       | 729                  | 635                        | 62                            | -                                         | -                                | 9.345                       |
| Employees' severance indemnities              | 1.391                          | -                           | -                    | -                          | -                             | -                                         | -                                | -                           |
| Payables                                      | 16.064                         | 11.182                      | 6.408                | 17.488                     | 1.999                         | 440                                       | 102                              | 195.273                     |
| Accrued liab.&deferred income                 | 26                             | 335                         | -                    | 706                        | 318                           | -                                         | -                                | -                           |
| <b>TOTAL LIABILITIES</b>                      | <b>27.348</b>                  | <b>36.986</b>               | <b>8.145</b>         | <b>25.211</b>              | <b>2.790</b>                  | <b>723</b>                                | <b>23.520</b>                    | <b>281.298</b>              |
| <b>INCOME STATEMENT</b>                       |                                |                             |                      |                            |                               |                                           |                                  |                             |
| Sales                                         | 28.138                         | 64.905                      | 17.213               | 46.621                     | 4.784                         | 467                                       | -                                | 187.067                     |
| Value of production                           | 28.325                         | 67.258                      | 18.781               | 46.627                     | 4.652                         | 467                                       | -                                | 214.975                     |
| Costs of production                           | 23.745                         | 56.753                      | 18.383               | 42.948                     | 4.406                         | 534                                       | 3.243                            | 178.095                     |
| Difference between value & cost of production | 4.580                          | 10.505                      | 398                  | 3.679                      | 246                           | (67)                                      | (3.243)                          | 36.880                      |
| Financial operations                          | (312)                          | (66)                        | 40                   | 49                         | (209)                         | -                                         | 22                               | 83                          |
| Extraordinary operations                      | -                              | -                           | -                    | -                          | -                             | -                                         | -                                | -                           |
| Taxes                                         | 1.842                          | 3.715                       | (14)                 | 1.075                      | 4                             | -                                         | -                                | (5.209)                     |
| <b>NET PROFIT</b>                             | <b>2.426</b>                   | <b>6.724</b>                | <b>452</b>           | <b>2.653</b>               | <b>33</b>                     | <b>(67)</b>                               | <b>(3.221)</b>                   | <b>31.754</b>               |

(1) Information prepared according to local GAAP.

## HIGHLIGHTS OF THE MOST RECENT FINANCIAL STATEMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES (ART. 2429 OF THE ITALIAN CIVIL CODE).

UNLESS OTHERWISE STATED, THESE DATA ARE SET OUT FOLLOWING IAS/IFRS NATIONAL ACCOUNTING

|                                             | OSAI S.p.a. (2)   | Techmark s.r.l. (3) | OSAI UK (4)       | OSAI USA (3)      | OSAI GMBH (3)     |
|---------------------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| Currency                                    | Thousands of Euro | Thousands of Euro   | Thousands of GBP  | Thousands of USD  | Thousands of Euro |
| Reference period                            | 01/07/07-31/12/07 | 01/07/07-31/12/07   | 01/07/07-31/12/07 | 01/07/07-31/12/07 | 01/07/07-31/12/07 |
| Line-by-line consolidation                  | YES               | YES                 | YES               | YES               | YES               |
| <b>ASSETS</b>                               |                   |                     |                   |                   |                   |
| Fixed assets                                | 5.607             | 34                  | 37                | 77                | 6                 |
| Current assets                              | 9.344             | 975                 | 1.201             | 1.576             | 49                |
| Prepaym.&accrued income                     | 36                |                     | 36                |                   |                   |
| <b>TOTAL ASSETS</b>                         | <b>14.987</b>     | <b>1.009</b>        | <b>1.274</b>      | <b>1.653</b>      | <b>55</b>         |
| <b>LIABILITIES</b>                          |                   |                     |                   |                   |                   |
| Shareholders' equity                        | 5.569             | 256                 | 966               | 304               | (56)              |
| Provisions for risks and charges            | 230               |                     |                   |                   |                   |
| Employees' severance indemnities            | 2.569             | 81                  |                   |                   |                   |
| Payables                                    | 5.328             | 669                 | 243               | 1.306             | 111               |
| Accrued liab.&deferred income               | 1.291             | 3                   | 65                | 43                |                   |
| <b>TOTAL LIABILITIES</b>                    | <b>14.987</b>     | <b>1.009</b>        | <b>1.274</b>      | <b>1.653</b>      | <b>55</b>         |
| <b>INCOME STATEMENT</b>                     |                   |                     |                   |                   |                   |
| Sales                                       | 7.243             | 1.153               | 635               | 1.717             | 29                |
| Value of production                         | 7.215             | 1.150               | 643               | 1.315             |                   |
| Costs of production                         | 7.069             | 989                 | 550               | 1.044             | 33                |
| Difference between value & cost of producti | 146               | 161                 | 93                | 271               | (4)               |
| Financial operations                        | (136)             | 4                   | 12                | (10)              | 2                 |
| Extraordinary operations                    |                   |                     |                   |                   |                   |
| Taxes                                       | 183               | (14)                | (36)              | (106)             |                   |
| <b>NET PROFIT</b>                           | <b>193</b>        | <b>151</b>          | <b>69</b>         | <b>155</b>        | <b>(2)</b>        |

(1) LOCAL GAAP

(2) 100% SUBSIDIARY OF PRIMA ELECTRONICS S.P.A.

(3) 100% SUBSIDIARY OF OSAI S.P.A.

(4) 82% SUBSIDIARY OF OSAI S.P.A.

**Informazioni ai sensi dell'art. 149-duodecies del Regolamento Emittenti Consob - PRIMA INDUSTRIE S.P.A.**

Il seguente prospetto, redatto ai sensi dell'art. 149-duodecies del Regolamento Emittenti Consob, evidenzia i corrispettivi di competenza dell'esercizio 2007 per i servizi di revisione e per quelli diversi dalla revisione resi dalla stessa Società di revisione.

Non vi sono servizi resi da entità appartenenti alla sua rete.

| (in migliaia di euro)      | Soggetto che ha erogato il servizio | Corrispettivi di competenza dell'esercizio 2007 |
|----------------------------|-------------------------------------|-------------------------------------------------|
| <b>Revisione contabile</b> | PricewaterhouseCoopers S.p.A.       | 80                                              |
| <b>Altri Servizi</b>       |                                     |                                                 |
| <b>Totale</b>              |                                     | <b>80</b>                                       |



**Certification of the financial statements as of 31/12/2007, in compliance with Article 81-ter of Consob Regulations no. 11971 of 14 May 1999 and its subsequent modifications and supplements**

1. The undersigning parties, Mr. Gianfranco Carbonato and Mr. Massimo Ratti, the respective Chief Executive Officer and Manager of Corporate Financial Statements of PRIMA INDUSTRIE SpA, hereby certify—while also taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24th, 1998—the following:

- the adequacy of these statements in relation to company characteristics (even taking into account any potential changes which occurred during the course of the year) as well as the actual application of administrative and accounting procedures for the drafting of the financial statements for the year closing on 31/12/2007

2. With regards to the above, it is hereby noted that the Company has appointed a Manager for the drafting of corporate financial statements as of 28/06/2007 who has initiated formalization, updating and integrating activities, where deemed necessary, of administrative and accounting procedures relating to the drafting of the financial statements of the year, even in light of the fact that changes have been implemented on the company's IT system during the year.

3. The following is also certified with regards to the Financial Statements of 31.12.07:

- a) they correspond to accounting ledgers and entries;
- b) they are drafted in compliance with the principles issued by the International Accounting Standards Board, as adopted by the European Commission in accordance with the procedure of Article 6 of EC Regulations no. 1606/2002 of the European Parliament and Council of 19 July 2002 as well as in compliance with Article 9 of Legislative Decree 38/2005; based on implemented audits, the financial statements provide an accurate and truthful representation of the issuing company's financial and economic situation.

Data: 27 March 2008

Chief Executive Officer (signature)

  
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Manager for the drafting of corporate financial statements (signature)

  
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