

2003 FACTS AND FIGURES

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## Company Profile

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Since its inception in 1977, PRIMA INDUSTRIE S.p.A.'s main business has been to develop, manufacture, and market advanced industrial products incorporating mechanics, electronics, software, control and sensor technologies. A three-dimensional laser system was one of the first products developed and successfully brought to the marketplace in 1978.

Since 1995, when the corporate business strategy focused on industrial laser processing systems, the Company has repeatedly registered two-digit growth, becoming one of the major players in the laser systems market. More recently, while maintaining its leadership in three-dimensional applications, PRIMA INDUSTRIE has also become an important player in the flat laser cutting market, as a result of the strong commitment to product innovation and wider marketing and customer support coverage.

Along with its affiliate, PRIMA ELECTRONICS S.p.A., PRIMA INDUSTRIE has accumulated remarkable skills and know-how in the areas of industrial electronics, control technology, and real-time software, key success factors in the Company's continuing pursuit of product innovation.

In the fall of 1999, the Company successfully completed its IPO at the Nuovo Mercato of the Borsa Italiana.

In May 2000, the Company acquired Convergent Energy Inc. in the U.S.A. With this acquisition, the PRIMA Group added internal capabilities for CO<sub>2</sub> and solid-state laser engineering, applications and manufacturing, and strengthened its presence in the U.S. market.

In April 2001, the Company acquired the assets of the Laserdyne division of GSI Lumonics, including engineering, sales and manufacturing resources in the U.S. Laserdyne is among the world leaders in CNC multi-axis laser processing systems, particularly in the field of precision micro-hole drilling, cutting and welding for the aerospace and energy industries. Thanks to this acquisition, the PRIMA Group further expanded its presence in North America and in the aerospace market.

In 2002, the PRIMA operations in the U.S.A. were merged and consolidated into a single corporation - PRIMA North America, Inc. - organized in three operating divisions: CONVERGENT LASERS, LASERDYNE SYSTEMS, and PRIMA LASER TOOLS.

In 2003 the Company has further enhanced its presence in Asia, where it is now operating also with three joint ventures, two in China and one in Japan.

PRIMA INDUSTRIE's corporate mission remains to systematically expand the scope of its products and services and continue to grow as a worldwide supplier of quality systems and solutions to the advanced-technology, high-growth market of industrial laser applications for material processing.



**Listed**



ISO 9001 - Cert. n° 0758/1

**Certified**



**Audited**



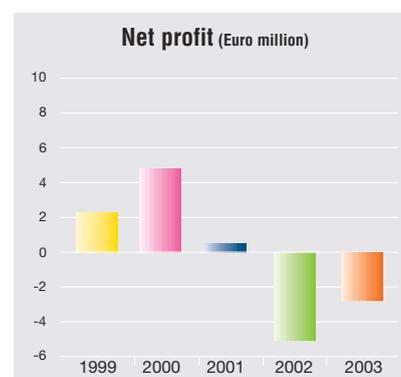
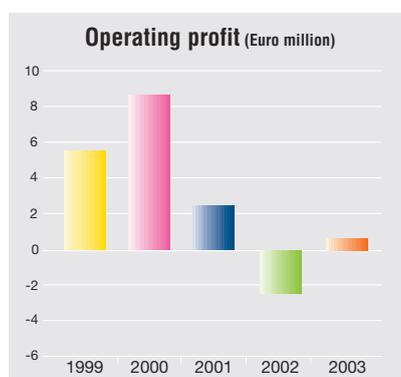
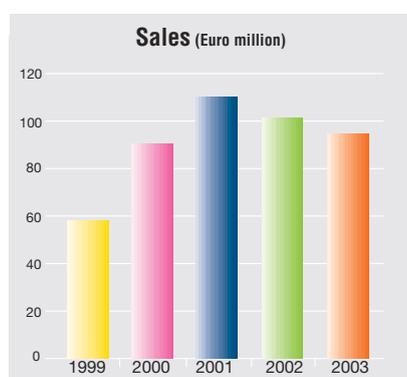
**Member**

## Financial Highlights

Year ended December 31 <sup>st</sup> , (Euro thousand, except per share data)	2003	2002	2001	2000	1999
<b>PROFIT AND LOSS STATEMENT</b>					
Net Sales	95,000	100,528	111,895	89,971	59,529
Operating Margin (EBITDA)	2,731	124	4,313	10,698	7,058
Operating Profit (EBIT)	589	(2,523)	2,113	8,554	5,678
Profit Before Taxes (EBT)	(2,083)	(5,569)	1,471	9,049	4,892
Minority Interests	-	-	(48)	(548)	(378)
Group Net Profit	(2,953)	(5,024)	197	4,865	2,374
<b>BALANCE SHEET</b>					
Fixed Assets (net)	10,432	10,985	14,358	10,301	4,450
Working Capital (net)	43,784	59,225	51,912	35,252	20,165
Shareholders' Equity and Minority Interests	27,729	27,248	33,863	28,303	18,667
Financial Position (net)	22,323	39,254	29,203	14,425	3,466
Employees' severance indemnity	4,164	3,708	3,204	2,825	2,482
<b>PER SHARE DATA<sup>(1)</sup></b>					
Number of outstanding shares	4,600,000	4,150,000	4,150,000	3,600,000	3,428,000
Weighted average outstanding shares	4,543,750	4,150,000	3,760,833	3,494,000	2,428,000
Net Profit per share (on weighted average of shares)	(0.65)	(1.21)	0.05	1.39	0.98
Book value per share (on weighted average of shares)	6.10	6.57	8.62	7.27	7.27
<b>RATIOS</b>					
Operating Income/Net Sales (ROS)	0.6%	(2.5%)	1.9%	9.5%	9.5%
Operating Income/Invested Capital (ROI)	1.1%	(3.6%)	3.3%	20.0%	25.7%
Net Income/Stockholders' Equity (ROE) <sup>(2)</sup>	(10.8%)	(16.8%)	0.7%	25.5%	29.6%
<b>OTHER KEY INFORMATION</b>					
Research and Development Expenses	6,935	7,475	6,119	4,132	2,503
Year-end Order Backlog	19,050	27,895	30,006	34,189	25,616
Number of employees	446	443	470	379	256

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

(2) ROE is calculated on average Stockholders' Equity



# Message to Shareholders

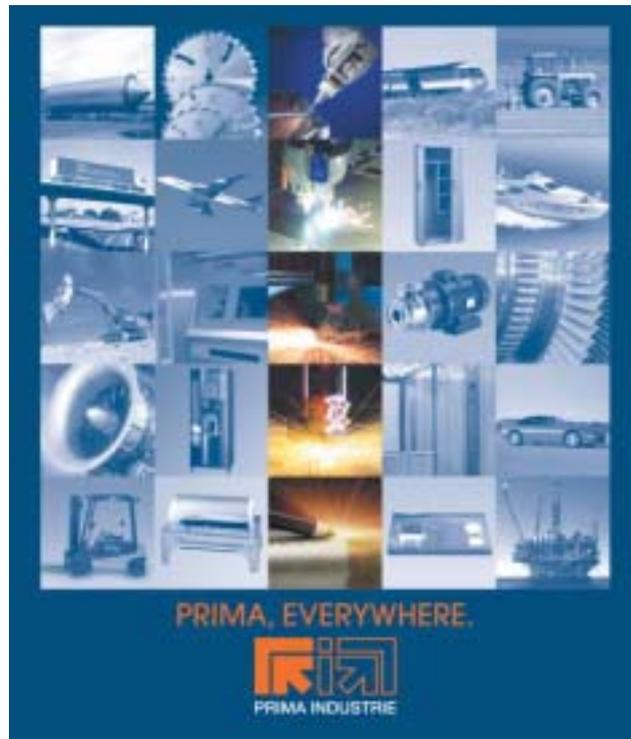
Ladies and Gentlemen,

The Group Financial Statements at December 31, 2003 show a significant improvement over the previous year, despite the economic challenges that the Group continued to face. After a disappointing interlude in 2002, the Group once again achieved operating profits, increasing its Earnings Before Interest and Taxes (EBIT) also as a result of the better performance shown by PRIMA North America and the LASERDYNE SYSTEMS Division in particular.

During the year, the Group operated in an international arena marked by economic instability and rising geopolitical tensions that culminated in the war in Iraq. All of the Group's major areas of business were affected: Europe, where 68% of our sales are concentrated, was essentially stagnant. GDP grew by a mere 0.5%, triggering a sharp downturn in the market for capital goods. In the United States, which accounts for 21% of the Group's sales, the clouds began to clear only towards the end of the year, as vigorous tax incentives, low interest rates and a weakening dollar all helped get the economy back on the move. On the other side of the world, Asia's economies continued to grow, with Japan finally seeing the light at the end of a tunnel it has been toiling through for a decade. China's growth showed no signs of slowing: even the SARS epidemic in the early months of the year was unable to rein in the country's GDP, now rising at rate of nearly 9% per year.

Italy, while sharing its European partners' lack of vision and inability to pursue effective growth strategies, suffered from its own set of home-grown impediments during the year. The near-meltdown of a number of major industrial groups, an inflation rate that remains above the European average, the lack of incentives for investments and research, chronically difficult political and economic relations all effectively barred the road to the structural reforms that Italy so urgently needs.

For most buyers, new investments were hardly on the cards in an economic scene like this, and domestic demand for capital goods fell accordingly: by around 23.1%, according to the Italian machine tool trade association UCIMU.



And with international markets also difficult, exports were no longer the safety valve they had often proved to be in the past. Far from offsetting slow demand on the home front, exports declined indeed by 0.2%.

In terms of market outlets, the automotive and aerospace industries - where the Group is leader with its line of 3D laser machines - showed cautious signs of recovery after a year overshadowed by the tragic events of 9/11. By contrast, the sheet metal fabricating market - prime outlet for our 2D laser machines - was far more difficult than it had been in 2002, with slipping demand aggravated by eroding sales conditions as major international competitors slashed prices and wooed prospective buyers with enticing terms of payment.

The PRIMA INDUSTRIE Group reacted to these challenges with an effective program calling for action in five key areas:

- Broadening our manufacturing activities' global base (today, the Group has production facilities in the United States and China, as well as in Italy). With increased globalization, the Group

will be better shielded from the impact of the international exchange market's growing volatility.

- Increasing our production flexibility to meet the needs of a market where fast delivery has become a major priority, and manufacturers must thus live with low visibility in their backlogs.
- Intensifying our market presence worldwide (the Group now does business in over 40 countries).
- Continuing to make the significant R&D investments needed to maintain the Group's technological leadership.
- Providing more effective control over working capital, thus bringing significant improvements in our financial position.

Major events during the year included the hostile takeover bid attempted by Newco Laser, whose offer of 7.5 Euro per share attracted fewer than 5% of our shareholders, and PRIMA North America's move to new facilities in Chicopee, Massachusetts and Champlin, Minnesota, both leased on a long-term basis.

Because of the difficulties outlined above, operating income was insufficient to cover the extraordinary expenses incurred during the year as a result of these events.

In 2003 consolidated sales were € 95.0 million, down 5.5% from € 100.5 million in 2002.

In real terms, revenues for 2003 were substantially on a par with those for the preceding year. In fact, the dollar's 20.43% loss of value against the Euro had a significant impact on our U.S. dollar-denominated sales, which account for a full 30.2% of the Group's turnover. Had exchange rates remained at 2002 levels, this year's sales would have grown by 0.7%.

The Group's EBITDA margin amounted to € 2.7 million or 2.9% of turnover, well over 2002's € 0.1 million.

This increase in margin reflected improvements at PRIMA North America, whose restructuring and reorganization programs began to bear fruit, as well as the improvement in sales and profitability achieved by the LASERDYNE SYSTEMS Division. PRIMA INDUSTRIE and PRIMA ELECTRONICS were also successful in protecting their margins from the problems plaguing Europe's markets.

The EBITDA figure includes Research and Development costs totaling € 6.9 million (as against € 7.5 million in 2002), all expensed. R&D now accounts for 7.3% of total turnover.

EBIT reached € 0.6 million or 0.6% of turnover, a welcome return to profitability after 2002's shortfall of € 2.5 million.

As for EBT, the Group posted a pretax loss of € 2.1 million, as against a loss of € 5.6 million in 2002. The loss includes extraordinary expenses of € 1.3 million, as previously mentioned.

The year ended with a consolidated net loss of € 3.0 million following € 1.6 million in provisions for current tax liabilities and € 0.7 million in deferred tax assets.

Significant improvements in managing working capital made it possible to improve the Group's net financial position and achieve better inventory turnover. Shorter collection periods resulted from more effective procedures for collecting receivables and careful screening of prospective customers,

which led the Group to turn down certain orders which were felt to involve unreasonable risks.

Better management of working capital and the € 4.0 million capital increase subscribed and paid in on February 11, 2003 have improved the Group's net financial position to € 22.3 million at December 31, 2003 (as from € 39.3 million at December 31, 2002). As in the previous year, none of this improvement was financed through factoring transactions.

Our last Annual Report warned of the prevailing uncertainty that made any attempt to formulate reliable forecasts for 2003 extremely difficult.

Just how difficult it was received abundant confirmation when the Eurostat consensus estimates that had put Eurozone GDP growth at 1.5% in December 2002 were revised downwards to 0.5% in September 2003. And when the latter forecast came true, it was clear that 2003 had been a year of stagnation for Europe's economies, and of contraction for the capital goods market.

Now, Eurostat expects to see Europe's GDP rising by 1.7% in 2004: a rate that should restore consumer confidence and boost investments.

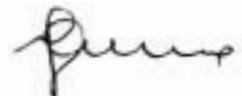
Nevertheless, the harsh lessons of the past year suggest that it would be unrealistic to foresee an EU market recovery anytime sooner than midyear.

Prospects, fortunately, are brighter on the other side of the Atlantic, where IMF and World Bank consensus estimates call for 3.9% GDP growth in 2004: a figure that the U.S. reached and passed in the second half of 2003. High hopes for the upcoming presidential elections and the significant increase in investments seen in the last few months thus leave room for optimism in this crucial market.

The outlook is also good for Asia's economies, where China and Japan are expected to do well.

In 2004, PRIMA INDUSTRIE thus looks forward to achieving a moderate increase in revenue, mainly from North America and Asia, and improving profit margins. This target, if reached, will allow us to be ready to return to the good profitability experienced in the years 1999 and 2000, if and when the economic situation in Europe will finally take off again.

We would like finally to thank you, as well as our customers, suppliers and employees, for the continuing support to the success of our Group.



Gianfranco Carbonato  
Chief Executive Officer



## The Company's growth in the People's Republic of China

While the Group devoted much of 2002 to reorganizing and consolidating its businesses in the U.S. - where it acquired CONVERGENT Energy in 2000 and LASERDYNE in 2001 - in 2003 it turned its attention mainly to China, working to improve its presence on a market that could prove vital for the Company's future.

China's economy has shown annual growth rates of 8 to 9% for the whole of the last decade, an achievement the country marked by joining the WTO in 2002. Today, China is the world's fastest growing market.

For almost ten years, the PRIMA INDUSTRIE Group has been active on the Chinese market, where it has:

- A Beijing sales office which markets and services 3D laser machines produced by both PRIMA INDUSTRIE and LASERDYNE. In China as in the rest of the world, the Group is firmly established as a leading supplier of such machines to the automotive and aerospace industries.

- A joint venture in Shenyang with China's top machine tool manufacturer, Shenyang Machine Tool. In addition to producing some components locally, the joint venture assembles, markets and provides after-sales service for Platino 2D laser machines.

During 2003, PRIMA INDUSTRIE also subscribed to a share issue whereby it acquired a 27.5% interest in a Chinese company located in Shanghai - the heart of the so-called "world factory" - whose lineup of 2D laser systems has

conquered a significant share of the Chinese market in recent years.

Formerly known as Shanghai Unity Best Choice, the Company changed name after joining forces with PRIMA INDUSTRIE, and will begin to do business as SHANGHAI UNITY PRIMA in 2004.

The Group's investment totaled 0.5 million U.S. dollars, including 0.3 million U.S. dollars in cash and the remainder through a technology transfer arrangement.



PIEDMONT REGIONAL AUTHORITIES VISITING SHANGHAI PLANT

### SHANGHAI UNITY PRIMA OPENING CEREMONY





OPTIMO INSTALLED IN CHINA

SHANGHAI UNITY PRIMA will continue to operate independently on the Chinese market.

The investment will bring a number of benefits to the Group, which will thus be able to:

- Improve its position on the entire Chinese market, with SHANGHAI UNITY PRIMA's output complementing the Group's own product lines.

- Sell components produced by PRIMA North America (laser generators), PRIMA ELECTRONICS (numerical controls and electronic equipment) and PRIMA INDUSTRIE (laser cutting heads and other high-tech units) to SHANGHAI UNITY PRIMA.

- Take advantage of China's low production costs to manufacture mechanical components for machines marketed in the Group's other outlets.

On a proforma basis, sales achieved by the Group in the People's Republic of China, either directly or through joint ventures, are summarized below. Amounts are expressed in millions of U.S. dollars, as the RMB is pegged to the dollar.

	2003	2002
PRIMA INDUSTRIE Group	3.5	1.4
SHENYANG-PRIMA	1.8	1.1
SHANGHAI UNITY PRIMA (machines)	4.3	3.0
SHANGHAI UNITY PRIMA (imported lasers)	1.5	0.7
<b>Total</b>	<b>11.1</b>	<b>6.2</b>

These figures highlight the strategic importance of the Group's recent achievements in China, where the market for laser systems is expected to double in size over the next three years.

With this firm foothold in Asia, the Group now has manufacturing facilities in the European Union, the United States and China: its best springboard to success in the challenging global market.

SHENYANG-PRIMA LASER MACHINE COMPANY Ltd. - SHENYANG CITY FACILITIES



## Revenue Analysis

Sales remained substantially at the level of the previous year, with consolidated turnover totaling € 95.0 million.

Real-term revenues stayed stable largely as a result of the increasing proportion of income contributed by PRIMA North America, whose reorganization has positioned the Company to benefit from the rebounding U.S. economy.

By contrast, sales by PRIMA INDUSTRIE and PRIMA ELECTRONICS declined slightly as both Companies faced the difficulties of Europe's markets, and Italy's in particular.

Sales turnover does not include revenues from the Group's joint ventures in China and Japan, which are not consolidated.

The breakdown by product shows that turnover from 3D laser machines has grown steadily in both percentage (from 29% in 2002 to 37% in 2003) and total value (from € 29.0 million in 2002 to € 34.8 million in 2003), aided by stronger European markets and LASERDYNE's return to normal business volumes after the crisis that hit the aerospace market in the preceding year.

Sales of 2D laser machines have declined (from 37% in 2002 to 32% in 2003) under the weight of market problems throughout Europe.

In Italy these problems were even more pronounced in 2003, when the Tremonti Act tax incentives that boosted sales in the previous year came to an end.

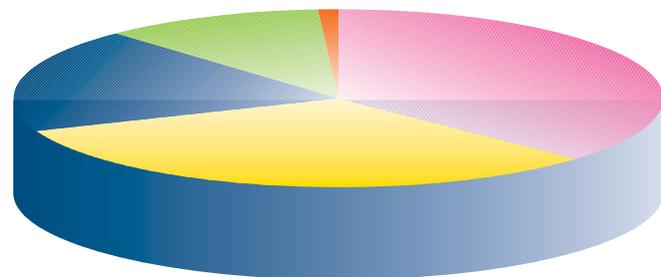
Sales of electronic systems have declined slightly.

The drop in turnover from laser generators has been offset by an increase in intergroup sales.

Turnover from after-sales service and other sources slowed down (from € 19.8 million in 2002 to € 17.8 million in 2003) entirely as a result of weakening exchange rates, as a large proportion of these revenues are in dollars.

During the year a total of 156 laser systems were delivered, as against 164 in the year 2002.

2003 revenues by product

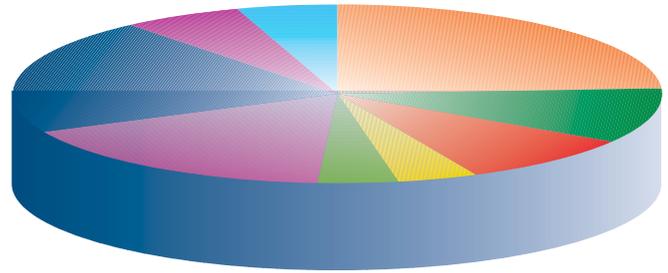


### PRIMA INDUSTRIE'S FULLY AUTOMATIC CELL BASED ON 3 PLATINO - THE NETHERLANDS



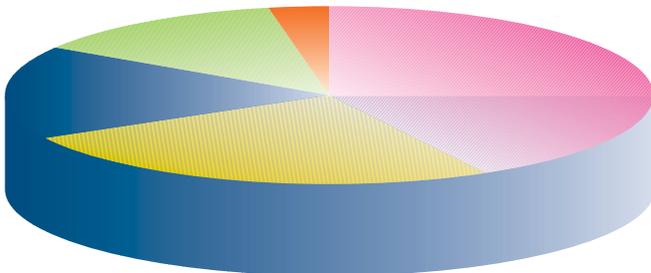
By geography, sales in Italy have dropped from 28% in 2002 to 24% in 2003. Rather stable have been sales in Europe (44% from 42% in 2002) where countries such as Spain, Germany and some others in Eastern Europe helped keep the volumes in spite of sluggish demand for capital goods in other countries. Europe's woes were in sharp contrast to the improvements in North America (where foreign exchange distortions masked the true extent of growth), as well as in Asia and the rest of the world.

2003 revenues by geography



- Italy: 24%
- Germany: 10%
- R.O.W.: 5%
- U.S.A.: 21%
- Spain: 9%
- France: 4%
- R.O.E.: 17%
- China & Japan: 6%
- UK: 4%

2003 revenues by markets



- Sheet metal processing: 42%
- Automotive: 25%
- Aerospace & Energy: 17%
- Electronics: 13%
- Other: 3%

6 RAPIDO IN PRODUCTION - GERMANY



## Marketing and Sales

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In 2003, the Group booked orders totaling € 91 million, down from € 107,9 million in 2002.

The consolidated order backlog at January 1, 2004 was € 19.1 million as against € 27.9 million as at January 1, 2003.

However, though a limited backlog was one of the factors that accompanied the Group throughout 2003, it in no way prevented us from reaching a turnover comparable to that of the previous year.

Shrinking backlogs have become an industry-wide phenomenon, confirming the market's demand on faster delivery terms. To succeed in such a situation, increasing production flexibility must rank among a manufacturer's highest priorities.

As a Group whose global presence spans all three of the world's major economic areas, PRIMA INDUSTRIE exhibited its products at international trade fairs such as Milan's EMO in October 2003, Chicago's METALFORM and FABTECH in May and November, and Beijing's CIMT in May.

Efforts were also made to increase the Group's visibility on the new markets we entered last year.

Thus, PRIMA INDUSTRIE participated for the first time in trade fairs in Poland (MACHTOOL) and Australia (AUSTECH).

We also received our first order from South Africa, bringing the number of countries where the Group does business past 40.

In September 2003, the Group set up PRIMA SCANDINAVIA AB.

Headquartered in Göteborg, the new company will oversee sales and after-sales service on the Scandinavian market (i.e., Sweden, Denmark, Norway and Finland), where the Group has a leading position in 3D laser systems, a good presence in the 2D sector, and well-established relationships with top class customers.

Finally, the Group's cross-Channel branch, PRIMA INDUSTRIE UK, was incorporated under British law with effect from January 1, 2004, a move reflecting the size and sales volume that this organization has now reached.

FABTECH - CHICAGO



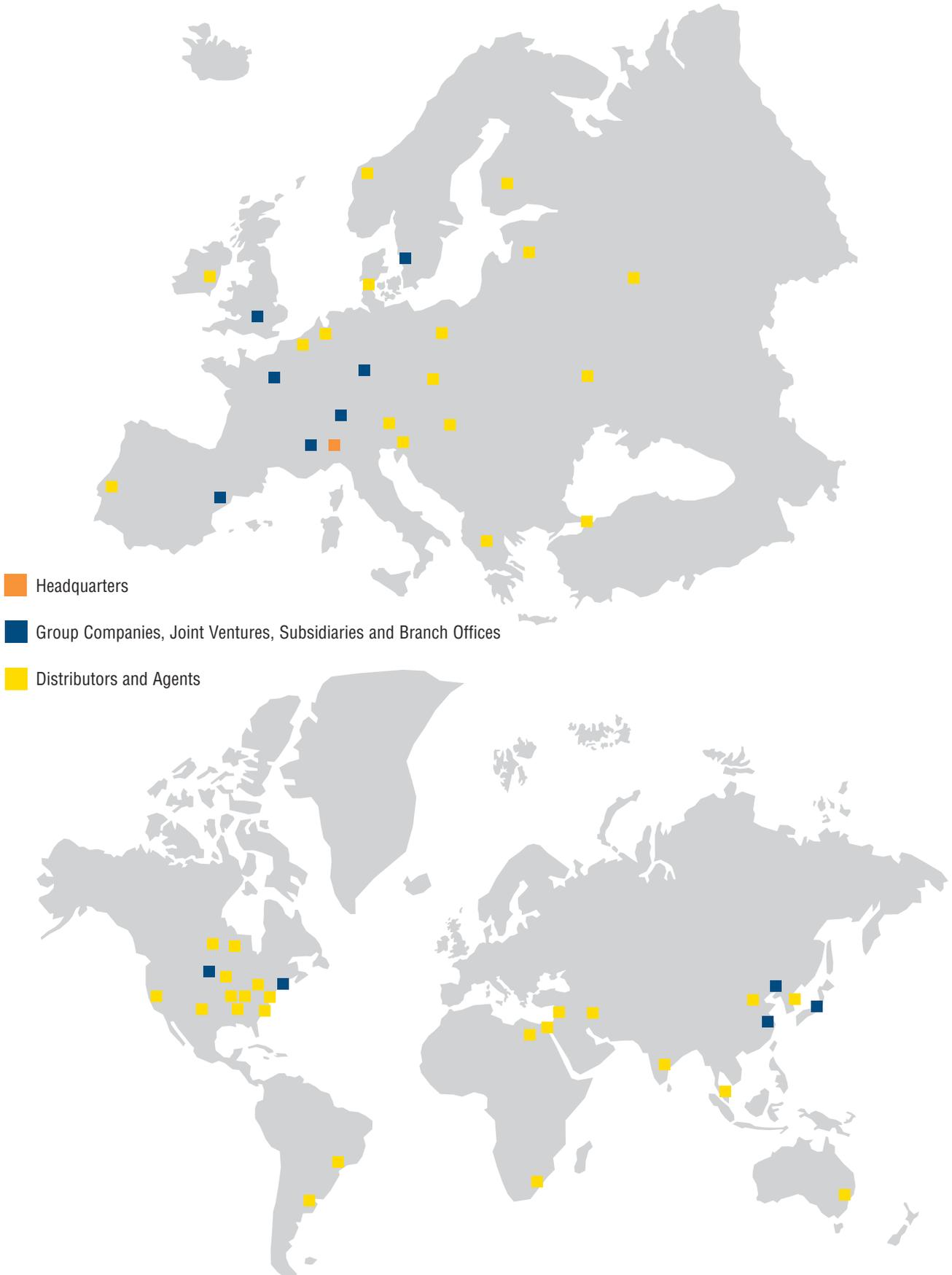


EMO - MILANO



# Worldwide Coverage

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## Italy

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## Overseas

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# Research and Development

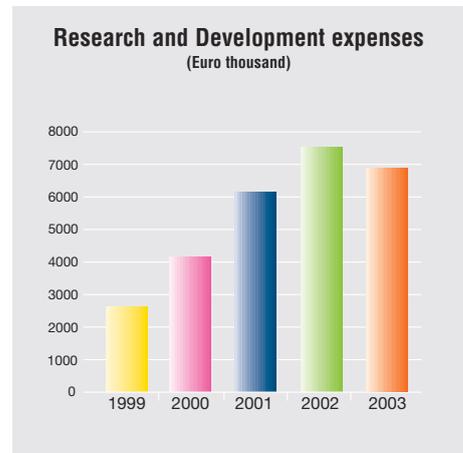
Research and development costs totaled € 6.9 million, compared with € 7.5 million in 2002 and € 6.1 million in 2001. As in the past, all expenditures for the year were charged directly against income. This sizable investment, which corresponds to 7.3% of turnover, will enable the Group to maintain its competitive edge in the fast-paced world of laser technology.

One of R&D's prime targets is to strengthen existing product lines. Here, the Group made a number of advances:

- New performance features were developed for the Platino line's PRIMACH-20L Numerical Control, including sensing capabilities for the cutting and piercing processes, and automatic restarting after process interruption.
- A new higher performance version of the Rapido has been developed.

- Product engineering and modularization work was carried out on the fast-flow family of CO<sub>2</sub> lasers (CP3000, CP3500, CP4000).
- A new Domino HS 1530 machine was developed which provides higher dynamic performance and operating accuracy.
- New direct-drive 3D focusing heads were developed which will be phased in on all of the Group's 3D products within the current year.

Product innovation is another major focus for R&D. To pursue this goal more effectively, a new research center was set up in Bari as part of a cooperative program with the Italian National Research Council. At December 31, 2003, the center was staffed by a seven-member research team.



With the facilities provided by the new center, the Group was able to devote fresh energy to advanced research efforts such as the two multi-annual projects approved by MIUR,

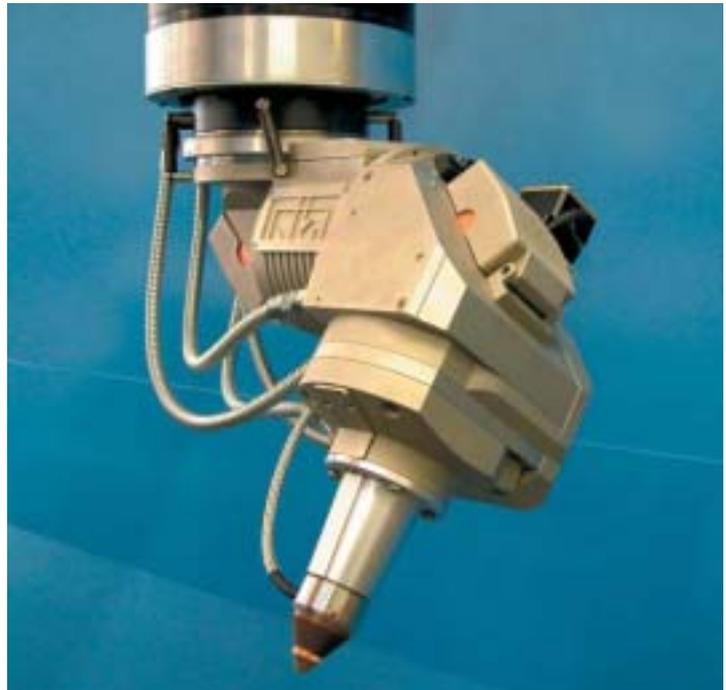
NEW RAPIDO



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the Italian Ministry of Education, Universities and Research, through its Technical and Scientific Committee, and thus eligible for public funding:

- PAMELA - This international project sponsored by EUREKA, the European Research Coordination Agency, will develop high-speed systems using linear motors and parallel kinematic architectures. This project's eligibility for funding was established by a MIUR Ministerial Decree of December 29, 2003.
- RESALT - Carried out together with a number of international research centers who work with lasers and remote welding systems for automotive subassemblies and other large components, the RESALT project was approved by the MIUR Technical and Scientific Committee on January 20, 2004.



NEW DIRECT-DRIVE 3D HEAD

#### RESEARCH CENTER IN BARI - ITALY



## Personnel and Organization

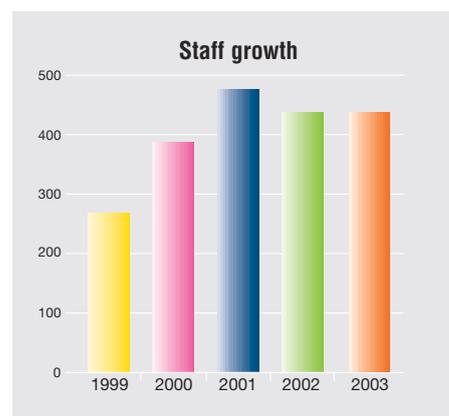
The Group's workforce remained stable, with 446 employees at the end of 2003 as compared with 443 in the preceding year.

Per capita sales thus amounted to 213 thousand Euros, as against 227 thousand Euros in 2002.

This indicator, like so many others, was affected by the weakening dollar, as 23% of the Group's employees work in the United States.

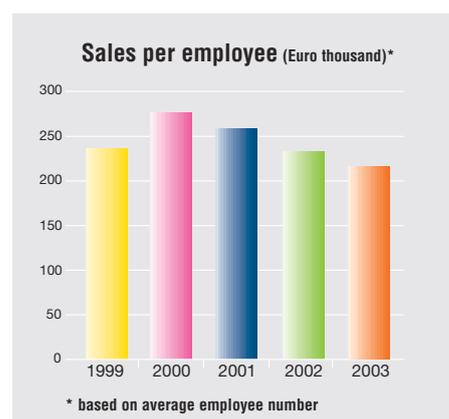
Workforce breakdown by Group company is shown below:

	31/12/2003	31/12/2002
PRIMA INDUSTRIE S.p.A. - Italy	234	222
PRIMA INDUSTRIE European Branch offices	31	31
PRIMA ELECTRONICS S.p.A. - Italy	81	80
PRIMA North America, Inc. - USA	100	110
<b>Total</b>	<b>446</b>	<b>443</b>
SHENYANG - PRIMA	9	8
SNK Prima	-	-
SHANGHAI UNITY PRIMA	90	-



Breakdown by job function was as follows:

	31/12/2003	31/12/2002
Management and administration	45	47
Marketing and Sales	41	51
R&D and Engineering	72	73
Production	200	194
Customer Service	77	71
<i>Subtotal</i>	<i>435</i>	<i>436</i>
Temporary employees	11	7
<b>Total</b>	<b>446</b>	<b>443</b>



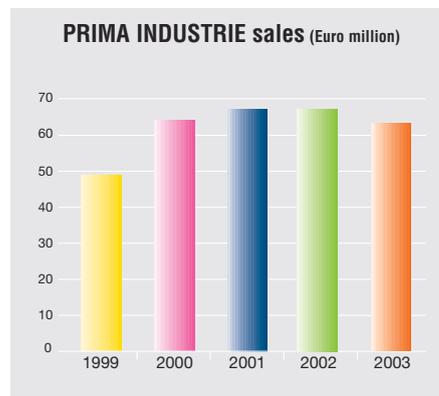


NEW SHOW ROOM AT THE HEADQUARTERS IN TORINO - ITALY





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



PRIMA INDUSTRIE sales in 2003 amounted to € 62.6, 7.2% down from 2002's € 67.5 million. This downturn was the result of the difficult situation on the European market, particularly in the 2D segment.

Operating profit has been decreasing to € 1.8 million from € 2.5 million of 2002, mainly due to lower sales.

The year ended with a net loss of € 2.8 million as against € 4.9 million in 2002, as a consequence of the depreciation of financial investments in PRIMA North America Inc., amounting in total to € 3.3 million and of extraordinary expenses amounting to € 1.1 million.

Order acquisition was € 59.3 million as against € 69.1 million in 2002. Year-end backlog was at € 12.5 million as against € 16.9 million in the previous year.

Employees at year end were 265, of whom 31 in European branches.

R&D expenses charged to P/L account have been € 3.6 million. The increase compared to previous year is mostly due to R&D external activities which have been performed to support the internal structure in areas involving new technologies and specific expertise.

(Euro million)	2003	2002	2001	2000	1999
Net Sales	62.6	67.5	67.5	63.4	49.3
Operating Profit	1.8	2.5	5.5	6.7	4.0
Net Profit (*)	(2.8)	(4.9)	1.1	4.2	1.3
Order booking	59.3	69.1	68.1	62.7	61.2
Research and Development expenses	3.6	3.5	2.5	2.2	1.9
Number of employees	265	253	240	218	191

(\*) Including consolidation of Group Companies results

### RAPIDO'S WELDING HEAD





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

The Company ended the year with sales totaling € 13.6 million, down 11.4% from the € 15.3 million invoiced in 2002.

Shrinking sales reflected lower demand from the Company's OEM customers, all of whom are capital goods manufacturers.

Nevertheless, the Company has managed to sustain profitability and the year closed with a net profit of € 1 million, as against € 1.1 million in 2002.

Earnings before interest and taxes amounted to € 1.8 million or 13.4% of turnover, as compared with € 2.1 million (13.9% of turnover) in 2002.

The Company booked orders totaling € 12.5 million, down from the previous year's € 15.2 million.

Order backlog at January 1st, 2004 was € 5.3 million as against € 6.5 million at the beginning of 2003.

In addition, market problems forced several of the Company's customers to delay scheduled product launches until later this year.

R&D costs were all charged directly against income, and totaled € 1.2 million (or 9.1% of turnover) in line with previous year (€ 1.2 million).

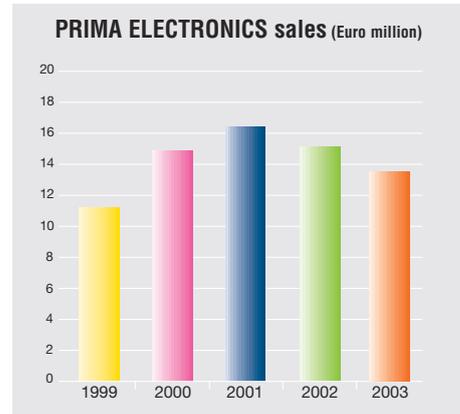
Research and development focused on:

- Developing innovative performance features for the new-generation PRIMACH-20L CNC which equips PRIMA INDUSTRIE laser systems.

- Developing and building prototypes and preproduction models of a new portable programming unit - the RPU-20L - which will be used on PRIMA INDUSTRIE 3D laser systems as well as on robot controls for a new OEM customer.
- Completing development of new line of intelligent drives for brushless motors with optical fiber connections and self-regulating capabilities.

The Company's net financial position improved, being positive by € 1.7 million at the year-end as against € 0.5 million in 2002.

The workforce at the year-end consisted of 81 employees.



(Euro million)	2003	2002	2001	2000	1999
Net Sales	13.6	15.3	16.1	14.7	11.3
Operating Profit	1.8	2.1	2.4	2.4	2.0
Net Profit	1.0	1.1	1.2	1.3	1.1
Order booking	12.5	15.2	13.9	18.1	11.8
Research and Development expenses	1.2	1.2	1.0	0.6	0.6
Number of employees	81	80	76	68	59

PRIMACH-20L



## Group Companies



CONVERGENT LASERS  
PRIMA LASER TOOLS  
LASERDYNE SYSTEMS

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



PRIMA North America, Inc - CHICOPEE (SPRINGFIELD) FACILITIES

After the move to new facilities in Chicopee, Massachusetts and Champlin, Minnesota, PRIMA North America's sales grew significantly as the U.S. economy showed signs of recovery and the aerospace industry returned to normal conditions.

Turnover thus rose by 25.1%, totaling \$ 30.0 million at the year-end as against \$ 24.0 million for the year before.

The LASERDYNE SYSTEMS Division showed particularly significant growth, with turnover climbing from \$ 8.9 million in 2002 to \$ 16.0 million at December 31, 2003: an increase of over 79%.

The CONVERGENT LASERS Division made sales totaling \$10.5 million, closely matching 2002's \$10.6 million.

In any case, 2003 was still a year of transition for CONVERGENT LASERS, as deliveries of the new CP3500 and CP4000 lasers were still limited. CONVERGENT LASERS' intergroup sales are expected to increase during 2004.

The PRIMA LASER TOOLS Division, which markets, installs and services PRIMA INDUSTRIE products, invoiced \$ 5.6 million, a slight dip down from the \$ 5.9 million posted in 2002.

With CONVERGENT LASERS and PRIMA LASER TOOLS Divisions still below the break-even point, the Company ended the year with a net operating loss of \$ 2.9 million, in spite of the good results achieved by LASERDYNE SYSTEMS.

However, this was a highly encouraging improvement over the \$ 6.7 million loss in 2002.

Total orders for the year amounted to \$ 24.9 million, with a backlog of \$ 3.0 million as compared with \$ 8.3 million in 2002. This reduction resulted from strong sales in the last quarter. In January 2004, the Company received orders totaling \$ 3.5 million and the backlog has returned to a more satisfactory level.

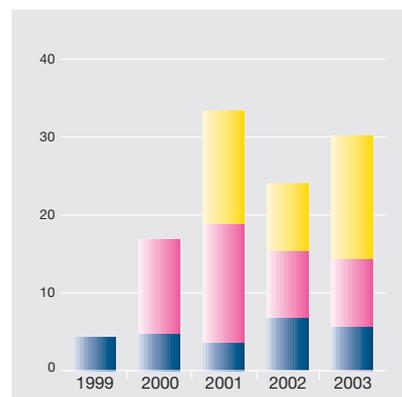
The workforce was reduced yet again, from 110 employees in 2002 to 100 at the end of 2003.

As it now stands, the workforce is well able to meet the Company's business needs, particularly after the recent addition of a number of key persons whose professional skills and extensive experience promise to make the organization even more effective.

Research and development costs, all of which were expensed during the year, totaled \$ 2.4 million as against \$ 2.6 million in the previous year. R&D work focused on completing the family of CP3000, CP3500 and CP4000 fast-flow lasers.

These units will equip a growing proportion of PRIMA INDUSTRIE systems in the future.

PRIMA LASER TOOLS ■  
CONVERGENT LASERS ■  
LASERDYNE SYSTEMS ■



(US\$ million)	2003	2002	2001	2000
Sales	30.0	24.0	33.2	16.3
Operating Profit	(2.9)	(6.7)	(4.5)	(0.4)
Net Profit	(4.2)	(7.2)	(4.0)	(0.6)
Order booking	24.9	27.3	25.2	16.8
Research and Development expenses	2.4	2.6	2.8	0.7
Number of employees	100	110	154	92



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

In addition to the activity in progress on the Mosaico welding systems, the Company is starting the promotion of PRIMA INDUSTRIE 3D systems on the Japanese market.

As PRIMA INDUSTRIE had a 40% interest in the Company, this percentage of the Company's small loss at March 31, 2002 (date on which its latest financial statements were approved) is carried on the PRIMA INDUSTRIE books.

In October and November 2003, SNK and PRIMA INDUSTRIE each acquired 10% of the shareholdings previously held by Hanwa. Consequently, the two partners now have an equal interest in the joint venture. To increase its holdings, PRIMA INDUSTRIE has invested ¥ 7.7 million.



**SHENYANG-PRIMA LASER MACHINE COMPANY Ltd.**  
Shenyang - People's Republic of China

The Company achieved a sales turnover of RMB 14.8 million, well above RMB 9.0 million of 2002.

Net loss for 2003 amounted to RMB 1.0 million. It showed little change with respect to the previous year and was mainly due to exchange rate variations between the Euro and the RMB.

50% of the loss (equivalent to its stake of ownership) is in the PRIMA INDUSTRIE financial statements.

Late in the year, the Company began manufacturing certain mechanical components locally in order to bring costs down.

The benefits of this initiative should make themselves felt as the year proceeds.



**SHANGHAI UNITY PRIMA LASER MACHINERY COMPANY Ltd.**  
Shanghai - People's Republic of China

In December 2003, PRIMA INDUSTRIE acquired a 27.5% interest in SHANGHAI UNITY PRIMA through a share issue.

The total investment in this transaction was RMB 4.4 million including RMB 2.4 million in cash and RMB 2.0 million in technology transfers.

The Company continued to do business under its former name (Shanghai Unity Best Choice) in 2003, as procedures for changing its legal status to a joint venture with foreign investors are still under way.

The necessary authorizations have been obtained and the new joint venture will be able to start operating early in 2004.

In 2003, SHANGHAI UNITY PRIMA made sales amounting to RMB 48.7 million, including RMB 12.8 million in sales of imported lasers, net profit was RMB 1.1 million.

Following the share issue, the Company's share capital totaled RMB 16.0 million.



MOSAICO ROBOTIZED CELL AT WORK IN JAPAN

## Performance on the Stock Market

Markets were highly volatile in 2003, achieving a sustained rally only in the last quarter. On the high-tech Nuovo Mercato where the Group's shares are traded, the NUMTEL index rose to 1.573 points, a 21% advance over the beginning of the year.

In the early months of 2003, PRIMA INDUSTRIE's stock value was affected by the 7.5 Euro per share takeover bid advanced on February 5. The Group's shares remained above € 7.5 throughout the period of the bid, at one time hitting a high of € 8.65. Predictably, prices dropped to around 7 Euros per share after the bid failed, and were slow to react when trading picked up later in the year.

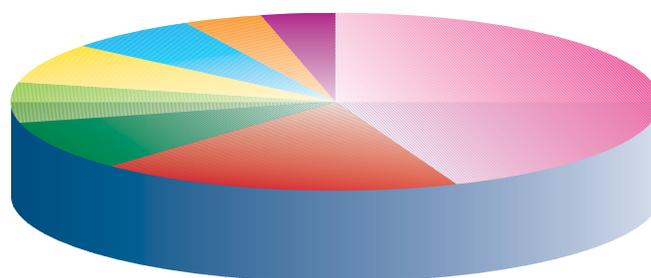
At December 31, 2003, PRIMA INDUSTRIE stock was quoted at € 6.92, 19% above the market value of € 5.82 at the 2002 year-end.

The Group worked to stabilize share prices during the year, implementing all of the measures approved by the Extraordinary Shareholders' Meetings of December 4, 2001 and March 28, 2003. At December 31, 2003, the Group held 47,000 of its own shares at an average value of € 6.89.

Following the capital increase of February 11, 2003, when 450,000 new shares were issued at a subscription price of € 8.85, as of December 31, 2003 there were 4,600,000 outstanding shares of common stock with a par value of € 2.5.

The Group has issued no bonds or securities other than common stock. As recorded in the Shareholders' Ledger, the Company's publicly held shares accounted for around 44 per cent of Shareholders' equity, including the portion held by Company employees.

Share Ownership



Share performance



### Board of Directors

Aldo PALMERI	Chairman
Gianfranco CARBONATO	Chief Executive Officer
Giulia DELLA ROSA	Director
Sandro D'ISIDORO	Director
Domenico PEIRETTI	Director
Rafic MANSOUR	Director
Giuseppe MORFINO	Independent Director
Paolo MAZZOTTO	Independent Director (till February 27, 2004)
Marco PINCIROLI	Independent Director (since February 27, 2004)

### Statutory Auditors Committee

Riccardo FORMICA	President
Andrea MOSCA	Effective Auditor
Roberto PETRIGNANI	Effective Auditor

### Management

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

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

# Consolidated Financial Statements

## CONSOLIDATED INCOME STATEMENT

Year ended December 31 <sup>st</sup> , (Euro thousand, except per share data)	2003	2002	2001	2000	1999
<b>PRODUCTION VALUE</b>					
Revenues from sales and services (Net Sales)	95,000	100,528	111,895	89,971	59,529
Changes in work-in-progress, semi-finished and finished goods	(2,248)	(1,779)	2,882	(1,032)	1,771
Increase from internal work (assets)	(740)	466	75	277	343
Other revenues and income	1,630	1,481	1,844	2,204	1,132
<b>TOTAL PRODUCTION VALUE</b>	<b>93,642</b>	<b>100,696</b>	<b>116,696</b>	<b>91,420</b>	<b>62,775</b>
<b>PRODUCTION COSTS</b>					
Purchases of raw material, consumables and supplies, net of inventory variation	(46,048)	(51,705)	(63,841)	(44,778)	(30,943)
Service expenses	(17,955)	(20,120)	(21,626)	(16,710)	(11,901)
Lease and rent costs	(1,729)	(1,889)	(1,725)	(1,071)	(623)
Other expenses	(1,681)	(890)	(1,076)	(1,250)	(1,074)
<b>TOTAL PRODUCTION COSTS</b>	<b>(67,413)</b>	<b>(74,604)</b>	<b>(88,268)</b>	<b>(63,809)</b>	<b>(44,541)</b>
<b>ADDED VALUE</b>	<b>26,229</b>	<b>26,092</b>	<b>28,428</b>	<b>27,611</b>	<b>18,234</b>
Personnel expenses	(23,498)	(25,968)	(24,115)	(16,913)	(11,176)
<b>EBITDA</b>	<b>2,731</b>	<b>124</b>	<b>4,313</b>	<b>10,698</b>	<b>7,058</b>
Amortisation and depreciation	(2,142)	(2,647)	(2,200)	(2,144)	(1,380)
<b>OPERATING PROFIT (EBIT)</b>	<b>589</b>	<b>(2,523)</b>	<b>2,113</b>	<b>8,554</b>	<b>5,678</b>
Financial income and expenses	(1,418)	(1,958)	(447)	(574)	(514)
Adjustments to financial assets	(48)	(939)	(195)	(108)	(374)
Extraordinary items	(1,206)	(149)	-	1,177	102
<b>PROFIT BEFORE INCOME TAXES (EBT)</b>	<b>(2,083)</b>	<b>(5,569)</b>	<b>1,471</b>	<b>9,049</b>	<b>4,892</b>
Income taxes	(870)	545	(1,226)	(3,636)	(2,140)
<b>NET PROFIT FOR THE YEAR</b>	<b>(2,953)</b>	<b>(5,024)</b>	<b>245</b>	<b>5,413</b>	<b>2,752</b>
Minority interests	-	-	(48)	(548)	(378)
<b>NET PROFIT FOR THE YEAR-GROUP</b>	<b>(2,953)</b>	<b>(5,024)</b>	<b>197</b>	<b>4,865</b>	<b>2,374</b>
<b>EARNINGS PER SHARE</b>	<b>(0.65)</b>	<b>(1.21)</b>	<b>0.05</b>	<b>1.39</b>	<b>0.98</b>

## CONSOLIDATED BALANCE SHEET

Year ended December 31 <sup>st</sup> , (Euro thousand)	2003	2002	2001	2000	1999
<b>FIXED ASSETS (NET)</b>	<b>10,432</b>	<b>10,985</b>	<b>14,358</b>	<b>10,301</b>	<b>4,450</b>
Intangible assets	3,845	4,509	6,443	3,629	1,058
Tangible assets	5,054	5,394	5,829	5,157	2,123
Financial assets	1,533	1,082	2,086	1,515	1,269
<b>EMPLOYEES' SEVERANCE INDEMNITY</b>	<b>4,164</b>	<b>3,708</b>	<b>3,204</b>	<b>2,825</b>	<b>2,482</b>
<b>NET WORKING CAPITAL</b>	<b>43,784</b>	<b>59,225</b>	<b>51,912</b>	<b>35,252</b>	<b>20,165</b>
Inventories	21,565	28,077	33,040	21,197	12,085
Trade receivables	40,351	52,625	43,778	38,452	29,586
Other receivables	9,621	10,477	9,472	7,113	3,791
Accrued income and prepaid expenses	164	145	171	498	409
Trade payables	(19,007)	(22,539)	(23,973)	(21,877)	(19,166)
Other payables	(8,463)	(8,745)	(9,441)	(9,308)	(5,965)
Accrued liabilities and deferred income	(447)	(815)	(1,135)	(823)	(575)
<b>FINANCIAL POSITION (NET)</b>	<b>22,323</b>	<b>39,254</b>	<b>29,203</b>	<b>14,425</b>	<b>3,466</b>
Cash and banks	(3,607)	(3,329)	(8,173)	(4,421)	(8,950)
Bank borrowings	22,888	37,208	20,608	6,741	2,745
Borrowing from other financial institutions	3,042	5,375	16,768	12,105	9,671
<b>TOTAL CONSOLIDATED SHAREHOLDERS' EQUITY</b>	<b>27,729</b>	<b>27,248</b>	<b>33,863</b>	<b>28,303</b>	<b>18,667</b>
Minority interests	-	-	1,430	2,918	1,022
Shareholders' equity-group	27,729	27,248	32,433	25,385	17,645

## SHAREHOLDERS' EQUITY

	Share capital	Reserves	Net profit for the year	Total
Net profit 1999	-	-	2,374	2,374
31.12.1999	8,852	6,419	2,374	17,645
Appropriation 1999 results	-	2,374	(2,374)	-
Equity increases	444	2,705	-	3,149
Translation and other adjustments	-	(275)	-	(275)
Net profit 2000	-	-	4,865	4,865
31.12.2000	9,296	11,223	4,865	25,384
Appropriation 2000 results	-	4,865	(4,865)	-
Company capital translation into Euro	(296)	296	-	-
Equity increases	1,375	5,529	-	6,904
Translation and other adjustments	-	(52)	-	(52)
Net profit 2001	-	-	197	197
31.12.2001	10,375	21,861	197	32,433
Appropriation 2001 results	-	197	(197)	-
Translation and other adjustments	-	(161)	-	(161)
Net result 2002	-	-	(5,024)	(5,024)
31.12.2002	10,375	21,897	(5,024)	27,248
Appropriation 2002 results	-	(5,024)	5,024	-
Equity increases	1,125	2,858	-	3,983
Translation and other adjustments	-	(549)	-	(549)
Net result 2003	-	-	(2,953)	(2,953)
31.12.2003	11,500	19,182	(2,953)	27,729

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 <sup>st</sup> , (Euro thousand)	2003	2002	2001	2000	1999
<b>A) NET FINANCIAL POSITION AT 01.01</b>	<b>(39,254)</b>	<b>(29,203)</b>	<b>(14,425)</b>	<b>(3,466)</b>	<b>(12,246)</b>
<b>B) CASH-FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>(9)</b>	<b>(1,580)</b>	<b>3,596</b>	<b>10,099</b>	<b>4,036</b>
Consolidated net income	(2,953)	(5,024)	197	4,865	2,374
Amortisation/depreciation of tangible/intangible assets	2,002	2,517	2,349	1,595	955
Accrual of employees' severance indemnity, net of payments	456	504	379	343	(25)
Accrual to other funds	297	(645)	476	3,189	613
Accrual to bad debt and depreciation of financial assets	189	1,068	195	107	119
<b>B-BIS) EQUITY VARIATIONS</b>	<b>3,434</b>	<b>(1,591)</b>	<b>5,364</b>	<b>4,096</b>	<b>8,299</b>
Equity increase (decrease)	3,434	(1,591)	5,896	4,204	9,536
IPO costs (effect net from taxation)	-	-	-	-	(1,129)
Dividend paid to third parties	-	-	(532)	(108)	(108)
<b>C) CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>15,004</b>	<b>(6,800)</b>	<b>(17,136)</b>	<b>(18,434)</b>	<b>(1,938)</b>
(Increase) decrease in inventories	6,512	4,963	(11,843)	(9,112)	(1,401)
(Increase) decrease in trade receivables	11,653	(8,977)	(5,239)	(8,777)	(6,274)
(Increase) decrease in other receivables	1,338	(1,005)	(2,298)	(3,960)	(204)
(Increase) decrease in short-term accruals (net)	(388)	(294)	639	158	(292)
Increase (decrease) in payables to suppliers	(3,544)	(1,433)	2,095	3,735	2,918
Increase (decrease) in other payables	(567)	(54)	(490)	(478)	3,315
<b>D) CASH-FLOW PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<b>(1,498)</b>	<b>(80)</b>	<b>(6,602)</b>	<b>(6,720)</b>	<b>(1,617)</b>
(Additions) to intangible assets	(355)	502	(4,048)	(3,417)	(353)
(Additions) to tangible assets	(643)	(649)	(1,788)	(2,949)	(731)
(Additions) to financial assets	(500)	67	(766)	(354)	(533)
Proceeds from sale of fixed assets	-	-	-	-	343
<b>E) NET FINANCIAL POSITION AT 31.12</b>	<b>(22,323)</b>	<b>(39,254)</b>	<b>(29,203)</b>	<b>(14,425)</b>	<b>(3,466)</b>

# Notes to the Consolidated Financial Statements

## BUSINESS OF THE GROUP

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

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

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

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

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

PRIMA INDUSTRIE GmbH is a non-operating Group Company.

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The above mentioned Companies are included in consolidation on the line-by-line consolidation method.

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

The financial statements used in consolidation are those approved by the legal bodies governing the individual Companies. Such financial statements have been reclassified and, where necessary, adjusted to conform to the accounting principles used by the entire Group.

## PRINCIPLES OF CONSOLIDATION

The consolidated Subsidiaries are those in which PRIMA INDUSTRIE holds a direct interest of more than 50 per cent of that Company's share capital.

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

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

- elimination of the carrying value of the investments against the underlying share of net equity
- elimination of intercompany receivables and payables and income and expenses arising from intercompany transactions
- elimination of the valuation adjustments and accruals made solely for tax purposes, taking into account, where applicable, the related tax effect
- the translation of financial statements expressed in foreign currencies has been effected by applying the average rate for the year to the income statement and the year-end rate to the balance sheet. Exchange differences arising from the translation of the net investment in foreign Subsidiaries, associated undertakings and borrowings which hedge such investments are recorded in "Cumulative translation adjustments" in Shareholders' equity.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Intangible assets

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

Among them, Research and Development are expensed to the income statement of the year incurred.

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

Goodwill arising from the acquisition of Subsidiaries is amortized over a ten-year period.

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

Intangible assets are amortised as follows:

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

With respect to the above:

- the amortisation of industrial patents, intellectual properties and similar rights is considered sufficient in view of the estimated period of future benefit of the assets
- the amortisation of "other" intangible assets depends on the costs capitalised:
  - 5 years for extraordinary maintenance and deferred charges
  - over the life of the lease contract for leasehold improvements.

### Tangible assets

Tangible assets are stated at purchase or production cost. Cost includes expenses directly chargeable to the asset.

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

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

# Notes to the Consolidated Financial Statements

Depreciation rates are as follows:

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

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

## Assets under financial leases

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

Assets under financial leases are depreciated on the straight-line method over the estimated useful lives of the assets. The depreciation rates are in line with those used to depreciate tangible assets. Lease instalments are recorded in financial expenses and as reduction of the residual lease payable.

## Investments and securities recorded in financial assets

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

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

## Inventories

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

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

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

the purchase cost of external work.

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

## Receivables

Receivables are stated at nominal value and reduced to estimated realised value by an allowance for doubtful receivables.

## Prepayments and accruals

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

## Provisions for liabilities and expenses

The provisions for liabilities and expenses include accruals relating to losses or liabilities likely to be incurred but uncertain as to the amount or as to the date on which they will arise.

## Employees' severance indemnity

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

## Employees' benefit programs

U.S. Divisions have a defined contribution plan covering their employees. Furthermore, Companies sponsor a medical plan and provide a dental plan disability and life insurance benefits.

## Recognition of revenues

Revenues for the sale of goods are recognised at the time of the transfer of ownership, which generally coincides with delivery.

## Grants

Operating grants received from the state or other public body to cover specific operating costs are credited to the income statement when legal certainty of the receipt of the contribution has been

ascertained, or when the body disbursing the grant has issued a resolution approving the payment order.

## Income taxes

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

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

## Translation of balances in non euro currency

In the financial statements, the receivables and payables originally denominated in non Euro currency are translated into functional currency at the historical exchange rates as of the transaction date. Exchange differences arising at the time of collection or payment are recorded in the income statement. Receivables and payables, expressed in non Euro currencies have been adjusted to the exchange rates in effect at the balance sheet date and any unrealized exchange gains or losses have been recorded to profit and loss. Realized gains and losses are recorded in the income statement.

