

BOARD OF DIRECTORS REPORT ON THE CONSOLIDATED ACCOUNTS OF PRIMA INDUSTRIE GROUP AS AT DECEMBER 31, 1999

NOTE

This quarterly report concerning the consolidated accounts of the Prima Industrie Group as at December 31, 1999 has been prepared and divulged as directed by art. 2.6.2. of the Nuovo Mercato regulations. Data and information therein contained have not yet been submitted to PricewaterhouseCoopers SpA examination and therefore they must be considered as unaudited.

KEY EVENTS OF THE PERIOD

Laser machines continued the favourable trend of orders collection with a mix variation on behalf of the 3D promising therefore, also in perspective, a further improvement of the margins of profit. In fact, in 1999 orders acquisition was for 129 machines (no. 57 3D and no. 72 2D) as against 97 machines for 1998 (no. 31 3D and no. 66 2D).

From the financial stand point after the successful conclusion of the medium term operation managed by San Paolo/Imi to consolidate short-term debts (4 years for Euro 8.5 million) to which participated some medium term financial institutions and Investire Partecipazioni SpA (formerly Italia Investimenti – Itainvest SpA), well known shareholder of our Company, on October 27, 1999 the Company gave way to the planned capital increase (with a share premium) following the listing at the Nuovo Mercato at the Italian stock exchange SpA. In consequence, the net capital of the company increased by Euro 8,910 thousand, before deducting IPO expenses equal to Euro 1,875 thousand (net effect Euro 7,035 thousand).

Such fresh liquidity has been temporarily invested in short-term state bonds waiting for strategic investments to materialise.

As for what, it has been mentioned under the paragraph “profit before taxes” it must be said that the Company capital increase following the Company listing, at consolidate level, has been cleaned-up of the costs incurred for the operation.

TURNOVER

The positive trend of the first nine months of the year continued for the last quarter. The turnover as at December 31, 1999 was Euro 59,527 thousand as against Euro 46,088 thousand of the previous year. The increase is 29.2 percent.

In particular, the sales of the fourth quarter amounted to Euro 20,043 thousand which compares with Euro 16,473 thousand of the same period of 1998 (+21.7 percent) and this means that the growth has been basically steady throughout the year.

As expected, the rate of growth of the last quarter of the year with respect to the same period of 1998 (21.7 percent) has been lower than that of the first nine months (33.3 percent) and this is because in the past, the fourth quarter used to be by far the most important in terms of invoicing. Also in 1999, the last three months have been important, but a better distribution of production and deliveries throughout the year improved the situation.

Sales as at December 31, (expressed in thousand of Euro) may be classified as follows:

BY PRODUCT

	12/31/1999	%	12/31/1998	%
Total 3D machines	20,365	34	17,042	38
Total 2D machines	23,857	40	15,555	33
<i>Total laser machines</i>	<u>44,222</u>	<u>74</u>	<u>32,597</u>	<u>71</u>
Electronics equipment	8,048	14	6,709	14
After sales service & others	7,257	12	6,782	15
<i>Grand Total</i>	<u>59,527</u>	<u>100</u>	<u>46,088</u>	<u>100</u>

The above shows the increasing weight carried by the laser machines on the overall products mix which confirms the good performance of the reference market as well as of our machines.

BY GEOGRAPHICAL AREAS

	12/31/1999	%	12/31/1998	%
Italy	24,311	41	13,050	28
Europe	29,008	49	25,061	55
Outside Europe	6,208	10	7,977	17
<i>Total</i>	<u>59,527</u>	<u>100</u>	<u>46,088</u>	<u>100</u>

This analysis emphasises the growth achieved on the European market as a whole (and in particular the home market) due to the favourable macro-economic trend of this sector of activity in conjunction with the improvement of our market share.

The economical uncertainty of which, during the period under consideration, suffered some non-European countries generated a temporarily reduction of the usual volume of business directed to such areas but the situation is expected to return back to normal in the near future.

Furthermore, progresses are expected from the newly established joint-venture with the Chinese Company SMTCL for the production on site and distribution of the 2D laser machines.

LASER MACHINES BY NUMBERS

Considering the laser machines only, the number of same invoiced and delivered during the year are:

	12/31/1999	%	12/31/1998	%
<i>Total 3D machines</i>	38	34	31	38
<i>Total 2D machines</i>	74	66	52	62
<i>Total Laser machines</i>	<u>112</u>	<u>100</u>	<u>83</u>	<u>100</u>

The rate of growth with respect to the previous year is about 34,9 percent. In particular, 3D increased by 22.6 percent and 2D increased by 42.3 percent so confirming the expansion, in terms of market share, into the 2D machines market.

OPERATING RESULTS (EBIT)

The operating profit achieved for the year is Euro 5,730 thousand (9.6 percent of turnover) as against Euro 3,886 thousand (equal to 8.4 percent on turnover) for the previous year. On absolute values the increase is equal to 47.4 percent. This is due to scale economy generated by larger production volumes and improved efficiency.

PROFIT BEFORE TAXES

The gross profit for the period is Euro 4,915 thousand (8.3 percent on turnover) as against Euro 1,962 thousand for 1998 (4.3 percent on turnover). The growth is therefore equal to 150 percent. It is just the case to remind that 1998 was negatively affected by Euro 933 thousand of extraordinary costs in connection with the listing operation with NASDAQ which was withdrawn. In connection with the same operation, for 1999 there is a further cost amounting to Euro 256 thousand for this matter now extinguished. Therefore before the extraordinary items, the gross profit increase with respect to the previous year is Euro 2,276 thousand (+78,6%).

As directed by the international accounting principles (IAS) the costs incurred for the company listing at the Nuovo Mercato of the Italian stock exchange (Euro 1,875 thousand) have all been brought in reduction of the net capital increase which followed the listing and therefore they do not affect the consolidate profit for the year.

Such costs have been charged to Prima Industrie SpA profit and loss account among extraordinary expenses. In consequence, no costs concerning the company listing will affect future years.

NET FINANCIAL POSITION

Segregating the effect due to the capital increase (Euro 8,910 thousand) the net financial position is practically unchanged with respect to the previous year and this in spite of the remarkable sales growth of the Company in 1999. Net negative financial position has in fact increased by only Euro 146 thousand.

Furthermore, the consolidation of the short-term debts (Euro 9,221 thousand) realised in September 1999 allowed to classify the group financial resources much better than 1998.

The cash received from the Company listing makes the Company, at December 31, 1999, temporarily liquid on the short-term.

EMPLOYEES' SEVERANCE INDEMNITY

The amount decreases, from Euro 2,507 thousand (1998) to Euro 2,470 thousand (1999), as a result of the liquidation of the employees' severance indemnity which the employees utilised to purchase shares in the Company during the IPO at Nuovo Mercato, net to the normal year provision.

ACCOUNTING PRINCIPLES

For the period under consideration, there have been no changes on the accounting principles applied. Data comparison with the past is therefore homogeneous.

SHORT TERM EVOLUTION

The satisfactory trend of customers order acquisition is going-on also during these early days of the current year (the 2000). During January, 13 orders have been collected (no. 3 3D machines and no. 10 2D machines) as against 5 in January 1999. Please remember that the month of January has always been, historically, from this point of view, of little meaning. However, the turnover, limited to laser machines, has been Euro 2,344 thousand (no. 2 3D and no. 3 2D) as against Euro 1,283 thousand in January 1999 (no. 3 machines only).

The order backlog at January 31, 2000 is of no. 50 machines (no. 22 3D and no. 28 2D) equivalent to Euro 23,241 thousand. The order backlog at January 31, 1999 was of no. 29 machines equivalent to Euro 10,846 thousand.

Similar, satisfactory trend is also realised for the electronic products. In fact, Prima Electronics SpA, as at January 31, 2000 enjoy a backlog orders (clean from intercompany transactions) of about Euro 4,711 thousand as against Euro 3,969 thousand for 1999 same period.

The consolidated sale of electronic equipment as at January 31, 2000 was Euro 699 thousand (1999: Euro 549 thousand).

During next few months, Prima Industrie SpA will be seriously engaged with the extension of the manufacturing area of its workshop. In November 1999 was in fact signed with the vendor the preliminary agreement for the purchasing of the premises next to our plant. This will increase Prima Industrie present workshop area by more than 60 percent.

It is hoped to complete the new lay-out of the plant by the upcoming summer in order to have the space ready and available to comply with the current year production plan.

PRIMA INDUSTRIE GROUP

FINANCIAL STATEMENTS AS AT DECEMBER 31, 1999

(all amounts are expressed in thousands of Euro)

BALANCE SHEET

	12/31/1999		12/31/1998	
	Unaudited			
Shareholders' equity – Group (A)	18,665 (i)		7,244	
Intangible assets	1,058		1,224	
Tangible assets	2,123		1,831	
Financial assets	1,418		800	
Total fixed assets – net (B)	4,599		3,855	
Equity net of fixed assets (A-B)	14,066		3,389	
Contingent liabilities fund	1,597		1,339	
Employees' severance indemnity	2,470		2,507	
Minority interest	1,375		753	
Medium-long term loans	9,222		-	
NET PERMANENT CAPITAL	28,730		7,988	
Bank borrowings	2,739		12,760	
Borrowing from other fin. Institutions	450		917	
Trade payables	16,954		14,502	
Other payables	4,983		2,361	
Accrued liabilities and deferred income	998		388	
Total short term liabilities (C)	26,124		30,928	
Cash and banks	8,935		1,437	
Trade receivables	29,420		23,493	
Inventories	12,056		10,684	
Other receivables	4,044		3,209	
Accrued income and prepaid expenses	399		93	
Total short-term assets (D)	54,854		38,916	
NET WORKING CAPITAL (D-C)	28,730		7,988	
	12-31-1999	12-31-1998	09-30-1999	09-30-1998
NET FINANCIAL POSITION				
- short-term liquidity (debts)	5,746	(12,240)	(15,406)	(12,530)
- medium and long-term loans	(9,221)	-	-	-
	<u>(3,475)</u>	<u>(12,240)</u>	<u>(15,406)</u>	<u>(12,530)</u>

(i) the value of Company net capital as at December 31, 1999 is before tax

INCOME STATEMENT

	12-31-1999 Unaudited	12-31-1998	4° TRIM99 Unaudited	4° TRIM98 Unaudited
Revenues from sales and services	59,527	46,088	20,043	16,473
Changes in WIP and finished goods	1,764	1,473	(924)	(782)
Increase from internal work (assets)	343	484	79	116
Other revenues and income	1,201	1,116	452	717
TOTAL PRODUCTION VALUE	62,835	49,161	19,650	16,524
Purchase of raw materials and suppliers	(30,979)	(23,406)	(8,858)	(7,974)
Service expenses	(11,903)	(9,560)	(4,097)	(2,774)
Lease and rent costs	(609)	(664)	(141)	(208)
Other operating expenses	(1,140)	(633)	(715)	(535)
TOTAL PRODUCTION COSTS	(44,631)	(34,263)	(13,811)	(11,491)
ADDED VALUE	18,204	14,898	5,839	5,033
Personnel expenses	(11,162)	(9,758)	(3,030)	(2,700)
EBITDA	7,042	5,140	2,809	2,333
Amortisation and depreciation	(1,312)	(1,254)	(307)	(551)
EBIT	5,730	3,886	2,502	1,782
Financial income and depreciation	(542)	(697)	(239)	61
Adjustments to financial assets	(119)	(294)	-	(294)
Extraordinary items	(154)	(933)	102	(933)
PROFIT BEFORE INCOME TAXES	4,915	1,962	2,365	616

PROFIT INDEXES (in Euro except for number of shares and percentages)

	12-31-1999 Post-ipo	1999 N° of average Shares weighted	12-31-1998 Pre-ipo
Number of shares	857,000	607,000	557,000
Share par value	10.33	10.33	10.33
EBITDA per share	8,217	11,601	9,228
EBIT per share	6,686	9,439	6,976
GROSS PROFIT per share	5,735	8,098	3,522
EQUITY per share (i)	21,780	30,750	13,007

(i) the value per share of Company net capital as at December 31, 1999 is before tax