



**PRIMA INDUSTRIE GROUP**

**REPORT ON CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
30 JUNE 2000**

**Board of Directors  
29 August 2000**

## **PRIMA INDUSTRIE GROUP**

### **REPORT ON CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2000**

(Approved by the Board of Directors of the Company on 29 August 2000)

#### **INTRODUCTION**

The following financial information is based on the same principles as those applied in the preparation of the Group's interim and year-end financial statements. Accordingly, the comparison between the two six month periods (30/6/2000-30/6/1999) is presented using accounting principles which have been applied on a consistent and uniform basis.

The data and information contained in the following paragraphs have been subject to a limited review conducted by PricewaterhouseCoopers S.p.A., the Company's auditors. Consequently, the financial information contained herein should be considered "unaudited".

All amounts are expressed in millions of Lire, unless otherwise stated.

Included the appendices are the following:

- the report of limited review by the Company's auditors in accordance with the CONSOB decree 11971 of 14/5/99 and subsequent modifications.
- the report of the statutory auditors on the consolidated financial statements for the six months ended 30 June 2000
- the financial statements of the parent company, Prima Industrie SpA for the six months ended 30 June 2000.

#### *ACTIVITY OF THE GROUP*

There were no changes in the activity of the parent company, Prima Industrie SpA or other group companies in the six month period under review.

#### *FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS*

The companies included in the consolidated financial statements have been consolidated using the line-by-line method. The area of consolidation has changed with respect to 31/12/99 as a result of the inclusion of Convergent Prima Inc. (USA) from 1 May 2000. Revenues for the two month period (some Lire 5,000 million), the net result for the year (loss of some Lire 400 million) and the change in the depreciation criteria (Lire 165 million of additional costs) of this company had a negligible impact on revenues (+ 6.6%) and slightly diluted the profitability of the group.

The subsidiaries of the group, both direct and indirect, have been consolidated using the line-by-line method. The other participated companies are carried under the equity method.

Transactions between companies consolidated on a line by line basis and those carried under the equity method do not significantly impact the results of the group.

## SIGNIFICANT EVENTS

### *ACQUISITION OF CONVERGENT PRIMA INC. (USA)*

On 7 June 2000, an acquisition contract was formalised for the purchase of Convergent Prima Inc. (USA), a newly established company that assumed the activity of TransTec Lasers/ Convergent Energy Inc., an American company with many years of experience in the production of lasers and laser systems.

The activities acquired are summarised as follows:

	Thousands of US dollars
Fixed assets, net	698
Goodwill	1,750
Net working capital:	
• Cash and short term loans	(512)
• Trade receivables	1,553
• Inventories	6,908
• Other receivables and prepayments	114
• Trade payables	(1,151)
• Other payables	(1,354)
• Provisions and restructuring reserve	(1,706)
Total	3,852
Adjusted net capital invested	6,300

The effective date of the contract was 1 May 2000. The purchase, effected by the subsidiary, Prima US Inc. for 80% (the remaining 20% is held by an important strategic partner, Pluritec SpA of Burolo d'Ivrea - TO), resulted in a cash disbursement of US\$ 3,150,000 (for 50%) and a capital increase for an amount of US\$ 1,890,000 (for 30%) already been resolved by the Company's Board of Directors and reserved to institutional investors to be effected in September 2000.

With such acquisition, management believes to have completed a strategic operation both in terms of vertical integration (internalising laser components) and horizontal integration (acquiring an established trade mark and a vast sales network in the United States). This operation, which formed part of the Group's plans, pushed the Company to seek funding, by means of a quotation, on the financial markets.

### *ENLARGEMENT OF PRODUCTION FACILITIES*

On 23 June 2000, a purchase contract was signed to acquire through a nine year leasing contract, the production facilities adjacent to the current location of activities in Collegno (TO). With this investment, production facilities increased by over 70% and the office space by over 20%. Management believes that this provides the Company with the necessary operating space to continue the growth trend in the next 3/4 years.

In accordance with relevant accounting principles on fixed assets, such assets are recorded in fixed assets and the related lease liability has been recorded (Lire 3,200 million). There is no impact on the profit and loss account in the six months ended 30 June 2000 since the acquisition was effected at the end of the period.

### *LEGAL HEADQUARTERS*

The extraordinary shareholders' meeting of 12 May 2000, passed a resolution to transfer the legal headquarters from Turin (Via San Quintino 28) to the factory in Collegno Via Antonelli 28, in order to optimise the efficiency of the information system to shareholders'.

### *CONTRIBUTIONS RECEIVABLE RELATIVE TO RESEARCH AND DEVELOPMENT*

During the first six months of the year, the contract relative to Eureka/EU1784 Publics project (reference 64275: Push button machine) was signed with the financial institution, IMI. Consequently, contributions relative to the six months ended 30 June 2000 and contributions relative to costs sustained from the beginning of the project up to 31/12/99 were recorded in the profit and loss account for the period (the latter in extraordinary income).

Another project with Murst (reference 6175) still needs to be finalised and signing should be realised by the end of the year. This project relates to the development of a laser cutting and welding system with a superior level of productivity and flexibility. It is foreseen that this project will attract a contribution of 20% of costs incurred (to a maximum of Lire 1.6 billion) plus a low interest financing up to 65% (to a maximum of Lire 5.4 billion).

## REPORT ON OPERATIONS

In the six months to 30 June 2000, the Prima Industrie Group continued a growth trend increasing revenues by 50.3% achieving Lire 75.6 billion against Lire 50.3 billion in the same period in 1999.

The increase was obtained principally in the laser machine sector, however sales of electronic systems and after sales services also experienced positive growth. As a consequence, the operating result more than doubled (growth of +103.1%) to Lire 6.9 billion against some Lire 3.4 billion for the six months ended 30/6/99, while profit before tax, as a result of the decrease in adjustments to financial assets and the registration of capital contributions relative to costs sustained at 31/12/99 on the Eureka/Publics project, experienced a considerable increase of 170.6% to some Lire 7.7 billion (against some Lire 2.8 billion for the six months ended 30/6/99).

The market for laser machines once again confirmed its established growth and the Company continued to grow at rates higher than its principal competitors.

The above factors resulted in the stabilisation of cyclic trends for laser machine deliveries, which, in the past, were unbalanced towards the second half of the year. Such factors also contributed to the favourable result in the first six months of 2000 compared to the previous year.

### SUMMARY OF KEY PARAMETERS AND INCOME INDICIES

(in millions of Lire, excluding number of shares and earnings per share)

	30/6/00	%	30/6/00	%	30/6/99	%
	Including Convergent Prima		Excluding Convergent Prima			
Revenues from sales and services	75,625	100.0%	70,659	100.0%	50,271	100.0%
EBITDA	8,593	11.4%	8,884	12.6%	4,697	9.3%
Operating profit	6,893	9.1%	7,454	10.5%	3,394	6.8%
Profit before income taxes	7,679	10.2%	8,243	11.7%	2,838	5.6%
Number of shares (nominal value Lire 20,000)	857,000		857,000		557,000	
EBITDA per share	10,027		10,366		8,432	
Operating profit per share	8,043		8,698		6,093	
Profit before income tax per share	8,960		9,618		5,095	

The positive trend of the group is also reflected in the order backlog.

Excluding Convergent Prima data, during the first six months of the year, the increase was some 30.5% with respect to the same period in 1999.

#### ORDERS RECEIVED

	Orders received from 1/1/00 to 30/6/00		Orders received from 1/1/99 to 30/6/99	
	Millions of lire	Number of machines	Millions of lire	Number of machines
Laser machines 2-D	29,401	50	24,375	39
Laser machines 3-D	28,760	32	24,140	26
Electronic systems, other products and services	21,163	-	12,267	-
Laser generators, systems and services (Convergent Prima)	18,247	-	Not available	Not available
<b>Total</b>	<b>97,571</b>	<b>82</b>	<b>60,782</b>	<b>65</b>

#### ORDER BACKLOG

	At 30/6/00		At 30/6/99	
	Millions of lire	Number of machines	Millions of lire	Number of machines
Laser machines 2-D	19,571	31	16,132	26
Laser machine 3-D	29,311	28	14,221	16
Electronic systems, other products and services	11,253	-	8,082	-
Laser generators, systems and services (Convergent Prima)	13,738	-	Not available	Not available
<b>Total</b>	<b>73,873</b>	<b>59</b>	<b>38,435</b>	<b>42</b>

The order backlog at the end of the period gives reasonable grounds for expecting positive growth for the second six months of the year.

## WORKING CAPITAL

	30/6/00	30/6/00	30/6/00	31/12/99	30/6/99
	Including Convergent Prima	Of which Convergent Prima	Excluding Convergent Prima		
Inventories	44,479	12,875	31,604	23,401	25,733
Trade receivables	67,968	3,947	64,021	56,965	44,348
Other receivables	11,540	504	11,036	7,662	4,791
Accrued income and prepaid expenses	1,157	-	1,157	792	1,174
Provisions for liabilities and expenses	(8,541)	(3,045)	(5,496)	(4,087)	(2,424)
Trade payables	(40,223)	(1,609)	(38,614)	(33,694)	(30,112)
Other payables	(13,715)	(2,433)	(11,282)	(10,880)	(5,569)
Accrued liabilities and deferred income	(1,039)	(307)	(732)	(1,114)	(351)
Total	61,626	9,932	51,694	39,045	37,590

The trend represented above reflects an increase in the working capital of the group, which is less than proportional with respect to the growth in activity, and is also due to the improvement in debtors days.

## NET FINANCIAL POSITION

	30/6/00	31/12/99	30/6/99
Current financial assets	7,601	17,330	4,759
Short term loans with banks and other financial institutions	(14,694)	(6,186)	(26,213)
Medium and long term loans with banks and other financial institutions	(21,620)	(17,856)	(1,397)
Net financial position	(28,713)	(6,712)	(22,851)

The above represents total exposure to lending institutions (Ministry of Industry, Commerce and Craftsmen, IMI and, in the past, factoring companies). The increase of the total exposure with respect to 31/12/99 is due to both a physiological increase in the level of working capital as a consequence of the growth in revenues realised during the first six months of 2000 and investments effected during the period (the purchase of Convergent Prima for some Lire 6.5 billion, the leasing contract for the acquisition of the production facility for some Lire 3.2 billion plus other sundry investments).

Credit lines on current accounts for Prima Industrie SpA (parent company) amounted to Lire 50.5 billion, Prima Electronics SpA for Lire 4.2 billion and Convergent Prima Inc. for US\$ 3 million.

MOVEMENT IN FIXED ASSETS AND MEDIUM AND LONG TERM FINANCING  
(from 1/1/00 to 30/6/00)

Increase in shareholders' equity of the group	6,763
(-) Net investments in fixed assets	(9,500)
(+) Increase in Minority Interests	3,193
(+) Net increase in employees' severance indemnity	124
Liquidity generated from self financing net of investments in fixed assets	580

Such liquidity contributed, to a small extent, to financing the increase in working capital.

Increase in net working capital	22,581
(-) Increase in net financial position	(22,001)
Difference	580

RECALSSIFIED CONSOLIDATED BALANCE SHEET

	30/6/00	31/12/99	30/6/99
Shareholders' equity of the group (A)	40,928	34,165	16,192
Total fixed assets (B)	18,116	8,616	8,273
Surplus from own sources (A-B)	22,812	25,549	7,919
Employees Severance Indemnity	4,930	4,806	5,100
Minority interests	5,171	1,978	1,720
Permanent surplus capital	32,913	32,333	14,739
Net working capital (C)	61,626	39,045	37,590
Net financial position (D)	28,713	6,712	22,851
Surplus working capital (C-D)	32,913	32,333	14,739

## **SUBSEQUENT EVENTS**

Subsequent to the closing of the financial statements for the six month period, which have been summarised numerically and in the notes to this report, no matters materialised which could have a significant impact on the financial position, shareholders' equity and results for the period in relation to companies included in the consolidation.

The following is a summary of operations that have been or will be concluded in the second six month period of 2000:

- **SIGNING OF THE ELESTA AG PURCHASE CONTRACT:**  
Prima Electronics SpA finalised during August, the acquisition of the Swiss company, Elesta AG, which was originally part of the Atlas Copco Group and subsequently sold to the American company, Danaher. The interest in this group lies in the fact that during 1999, Elesta AG obtained from Atlas Copco the contract for the development and production of the product line Mark IV, which allows Prima Electronics to maintain the relationship with its most important client, the Atlas Copco Group for the 2001-2005 period. The price paid for the above was 1.35 million of Swiss Francs.
  
- **FINAL PAYMENT OF CONVERGENT PRIMA:**  
Within 30 September 2000, Prima US will pay the remaining 30% of the agreed price for the acquisition of Convergent Prima Inc. (USA). This residual payment (50% was already paid in cash in June and 20% is held by our partner PLURITEC SpA which was already paid in cash during the month of June) must be paid by means of a capital increase of Prima Industrie SpA reserved for institutional investors as resolved by the board of directors on 5 July 2000.
  
- **COMMERCIAL ACTIVITIES:**  
In the next few months, certain initiatives will be finalised in relation to commercial activities for 2000 by participating in shows at the following locations:
  - IMTS Chicago (USA)
  - BIMU Milan (Italy)
  - MAQUITEC Barcelona (Spain)
  - EUROBLECH Hanover (Germany)

As in prior years, in the year 2000 it is foreseen that significant resources will be designated to consolidate the Company's image in the market. Above all, IMTS in the USA (planned for the beginning of September) will be the occasion to promote the integration of human resources and products in the American market following the recent acquisition of Convergent Prima Inc.

- **CHANGE IN FINANCIAL POSITION:**  
In the second six months of 2000 there are no operations or investments foreseen (other than those above mentioned) which will significantly modify the financial structure of the group.
  
- **ORDERS RECEIVED:**  
Orders received for laser machines in the months of July and August are historically low, as is the case for all capital investments of this type. In the current year, a reduction with respect to the January-June trend was also experienced, however management is confident that from September the market will return to favourable levels. The backlog in other product lines (electronic systems) is, as always, normal.
  
- **STOCK OPTION PLAN:**  
On 5 July 2000, having surpassed in 1999 the foreseen parameters for the year of the first part of the three year stock option plan (approved by the Board of Directors on 17 December 1999), management of the Company undersigned and paid in cash the equivalent of 12,500 newly issued shares. The shareholders' equity of the Company as a result of this operation is currently higher by some Lire 653 million.

## **ACCOUNTING POLICIES**

The accounting policies adopted for the preparation of the six month financial statements are those applied in the year-end consolidated financial statements and have been applied on a consistent basis for the two six month periods under examination. These policies have remained unchanged from those applied in the preparation of the year-end and consolidated financial statements and are applied on a uniform basis for all companies in the area of consolidation.

### *PRINCIPLES OF CONSOLIDATION:*

Subsidiaries have been consolidated under the line-by-line method, which briefly consists of recording all assets and liabilities as well as revenues and costs of the individual companies on a line-by-line basis.

The minority interest in the share capital and reserves of subsidiaries is recorded as a separate caption "minority interests". The minority interest in the consolidated results for the year is recorded under "minority interests" in the income statement.

The principal adjustments in arriving at the consolidation of the balance sheets and income statements at 30/6/00 from a simple aggregation are the same as those utilised in the preparation of the statutory and consolidated financial statements at 31 December 1999.

### *EXCHANGE RATES APPLIED:*

The exchange rates applied in the translation of foreign currency financial statements are as follows:

Currency	Average exchange rate for the period		Period-end exchange rate	
	30/6/00	30/6/99	30/6/00	31/12/99
US dollar	2,018.467	1,803.99	2,026.229	1,874.31

## COMMENTS ON THE MAIN BALANCE SHEET COMPONENTS

### INTANGIBLE ASSETS

During first six months of 2000, no research and development costs were capitalised. Such activities, which as in previous years were very intensive, related to the expansion of product lines and to technological improvements and efficiencies, and were expensed in the profit and loss account.

However, in the first six months of 1999, research and development costs of Lire 306 million were capitalised for the new 3D product “ the Domino”, which was presented at the Paris show at the beginning of May 1999. This product was delivered to customers at the end of 1999.

The significant increase in the caption industrial patents, intellectual properties and similar rights relates to software of Convergent Prima. In addition, goodwill was paid and recorded in relation to Convergent Prima amounting to some Lire 3,487 million which reflects the technological advantage intrinsic to the activities of the acquired company. Such goodwill is amortised over ten years.

Depreciation for the period was Lire 287 million for research and development costs and Lire 366 million for other intangible assets for a total of Lire 653 million, compared to Lire 471 million for the six months ended 30/6/99.

### TANGIBLE ASSETS

The only significant variation is in the land and buildings caption and relates to the leasing contract signed by Prima Industrie SpA for the production facilities and the relative office space adjacent to the current facilities in Collegno (TO) which was effected in order to expand production capacity.

The acquisition, amounting to Lire 3,200 million, was obtained by means of a nine year lease contract. In the consolidated financial statements, the operation is recorded as an increase in fixed assets and a corresponding increase in financial liabilities

The remaining amounts capitalised relate to plant and machinery acquired in order to improve the two production facilities.

### FINANCIAL ASSETS

Financial assets increased from Lire 2,457 million at 31/12/99 to Lire 3,100 million at 30/6/00. This increase is due to the undersigning of a 10% quota, amounting to Lire 500 million, relative to a convertible bond issued by the Rambaudi commencing 1 July 2000 and a loan effected by Prima Electronics amounting to Lire 240 million in favour of M.L.T.A., a company where Prima Electronics holds a minority investment with the objective of acquiring control by the end of 2001. M.L.T.A is in the activity of engineering advanced electrical products. Such increases were offset by minor consolidation adjustments.

In addition, the investment in the joint venture SMTCL (Shenyang Machine Tool Company Ltd) was written down by Lire 100 million, since it is forecast that the company, held 50% by Prima Industrie SpA, will realise a loss at the end of the year resulting from the start up phase in the company's first year of activity.

#### INVENTORIES

Inventories increased by Lire 21,078 million with respect to 31/12/99. Lire 9,444 million of this amount relates to raw materials, Lire 8,110 million to work in progress and Lire 3,524 million to finished goods. A major portion of the increase is due to the change in the area of consolidation where Convergent Prima accounted for Lire 12,875 million of inventories. The increase in inventories held by other group companies, equivalent to Lire 8,203 million, reflects the increase in orders received and the resulting increase in production volumes generated during the period, whereby inventories are higher during the year, compared to total inventories at year-end when a significant number of deliveries take place.

The percentage of inventories to total assets of the group has consequently increased from 20.4% at 31/12/99 to 29.5% at 30/6/00.

#### TRADE RECEIVABLES

Total trade receivables at 30/6/00 amount to Lire 67,968 million (including Lire 3,947 million generated from the acquisition of Convergent Prima Inc.), compared to Lire 56,965 million at 31/12/99. This situation originates from the considerable increase experienced in revenues in the first half of the year which is therefore reflected in the increase in working capital. Considering the significant level of revenues for the period (Lire 75,625 million), the amount of cash receipts for the six months ended 30 June 2000 is considered satisfactory and allowed the Company to improve debtor days from 180 at the of 1999 to the actual level of 162 days, continuing the trend to improve the average days' collection.

The reduction in debtor days is also due to the seasonal trend in sales which peaks in the fourth quarter of every year (with a consequent higher trade receivables exposure from customers at 31 December). The amount is normally lower in the first half of each year when the total receivable balance is reduced.

There are no receivables that are due over 5 years.

#### SHAREHOLDERS' EQUITY - GROUP

Shareholders' equity rose due to the profit for the period (Lire 6,829 million), net of the adjustment arising from foreign exchange transaction fluctuations with respect to inventories of the subsidiary, Prima US which was lower than 31/12/99. The total amount of shareholders' equity – group therefore increased from Lire 34,165 million at 31/12/1999 to Lire 40,928 million at 30/6/2000.

	Share Capital	Reserves	Profit for the period	Total
31/12/99	17,140	12,428	4,597	34,165
Appropriation of 1999 result	-	4,597	(4,597)	-
Currency translation adjustment	-	(66)	-	(66)
Profit for the period (30/6/00)	-	-	6,829	6,829
30/6/00	17,140	16,959	6,829	40,928

#### SHAREHOLDERS' EQUITY – MINORITY INTERESTS

Compared to 31/12/99 (Lire 1,978 million) minority interests increased to Lire 5,171 million owing to the share of minority interests for the period of Prima Electronics and the sale of 20% of Convergent Prima Inc. (which absorbs a portion of the relative loss for the period) to Pluritec and decreased due to the payment of dividends of Prima Electronics in May 2000.

This can be illustrated as follows:

	Minority interests in Prima Electronics	Minority interests in Convergent Prima	Total
Balance at 31/12/99	1,978	-	1,978
Sale of 20% of Convergent Prima (Pluritec)	-	2,553	2,553
Dividends paid	(210)	-	(210)
Profit for the period to 30/6/00	963	(113)	850
Balance at 30/6/00	2,731	2,440	5,171

#### PROVISIONS FOR LIABILITIES AND EXPENSES

Total provisions for liabilities increased from Lire 4,087 million at 31/12/1999 to Lire 8,541 million at 30/6/2000. The most significant captions in this category consist of the warranty and expenses provision which increased from Lire 2,923 million to Lire 4,545 million (at 30/6/2000 this provision was higher than the corresponding provision at 31/12/1999 since the number of machines delivered but not installed was higher in the six month period ended 30/6/2000) and the restructuring provision relating to Convergent Prima for US\$ 1 million, recorded on acquisition to cover restructuring costs considered necessary in the first months of managing the company.

## BORROWINGS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Bank borrowings increased from Lire 5,316 million at 31/12/99 to Lire 14,694 million at 30/6/00 as a result of the increase in activity of the company. Through bank loans it was in fact possible to finance the increase in working capital.

The increase in borrowings with other financial institutions (Lire 21,620 million at 30/6/00 against Lire 18,726 million at the end of the year) is due to the acquisition, by means of leasing, of the new production facility in Collegno (TO) (Lire 3,200 million), offset by the settlement of the residual financial position on factoring arrangements).

Total indebtedness includes two loans which have repayment dates of over five years:

- a loan amounting to Lire 1,397 million issued by the Ministry of Industry, Commerce and Craftsmen in accordance with Law 46/82 “Special rotation fund for technological innovation”. This loan was obtained during the course of 1999 and has a duration of 15 years, of which five of pre-amortisation at an interest rate of 0.9825% per annum and ten years of amortisation at an interest rate of 3.275%. This loan is not covered by any form of guarantee on behalf of the Company;
- a loan amounting to Lire 3,200 million in relation to the leasing contract related with the acquisition of the production facility which was recorded at the end of June 2000 and has a duration of nine years.

There are no liabilities deriving from guarantees on any of the Company’s premises.

## TRADE PAYABLES

Trade payables increased from Lire 33,694 million at the end of 1999 to Lire 40,223 million at 30/6/2000. This increase reflects the growth in production volumes in the first six months of 2000.

In relation to purchases of raw materials, service expenses and lease and rent costs, the downward trend continues in the average payment period which reduced from 148 days at the end of 1999 to some 123 days at 30/6/00. The reduction reflects the estimated reduction in average payment times due to Italian laws on payments to suppliers.

## OTHER PAYABLES, ACCRUED LIABILITIES AND DEFERRED INCOME

Other payables increased from Lire 10,880 million at 31/12/1999 to Lire 13,715 million at 30/6/2000. The increase is essentially due to two factors: firstly an increase in personnel which generated a higher level of holiday pay and bonus’ payable to employees; secondly a payable in relation to Prima US amounting to Lire 3,830 million towards TransTec Lasers Inc. to settle the residual 30% acquisition of Converent Prima Inc.

The increase in advances relates to advances paid to customers reflecting the increase in activity of the company.

## MEMORANDUM ACCOUNTS

Memorandum accounts are not presented within the financial statements, however in order to complete the information on the balance sheet of the group, the following is a brief analysis of guarantees, commitments and pending liabilities.

### PERSONAL GUARANTEES GIVEN

Surities given to others

These amount to Lire 36 million and refer to two sureties given to Consorzio Garanzia Fidi Unionfidi. They are unchanged from the situation at 31/12/99.

### COMMITMENTS

Commitments for currency operations

Commitments for currency operations amount to Lire 965 million and relate to a position to sell US dollars to mitigate the foreign exchange risk of future sales (monies will be received by US and Chinese customers).

Lease commitments

Financial lease commitments relate to automobiles and computer equipment and amount to Lire 429 million (against Lire 593 million at 31/12/99).

This amount represents the total value of the lease obligations payable, including the purchase option at the end of the contract and excluding the instalments already paid.

Risks of bills of exchange

The balance of Lire 2,399 million is relative to bills of exchange signed by customers of Prima Industrie towards sales (with recourse) effected in relation to Sabatini Law.

### OTHER

Re-purchase commitments regarding customers and suppliers

These refer to re-purchase commitments signed by Prima Industrie in favour of leasing companies against sales to customers for Lire 3,176 million. This type of guarantee is released by Prima Industrie to reduce financing operations for clients where the client could not autonomously guarantee third party financing. The remaining amount of Lire 566 million is relative to the commitment to re-purchase certain machines sold to the group company Macro Meccanica SpA under a 60 month leasing contract at the end of 1997.

Assets with third parties

Such assets amount to Lire 5,012 million and relate to raw materials, work in progress, inventory on display and third party deposits.

### SURETIES GIVEN BY THIRD PARTIES ON OUR BEHALF

The amount is equivalent to Lire 1,873 million and represents a bank surety primarily in favour of customers for advances on orders and to guarantee the sureties released to suppliers.

## COMMENTS ON MAIN INCOME STATEMENT COMPONENTS

### REVENUES

The following tables provide an analysis of sales by product and geographic market during the first half of 2000 and 1999.

The table highlights the sales of 2-D laser products, 3-D laser products and other products and services divided by geographic market of destination, sales and number of units sold.

As indicated in the table, the mix of the laser machine has shifted favourably towards the 3-D products which has generated superior contribution margins. In terms of quantities, the percentage of 3-D products to total machines increased from 26% at 30/6/99 to 38% at 30/6/00. In addition, compared to the previous year, during the last two months of the semester, the Group entered the laser generator market through the products of the subsidiary, Convergent Prima Inc., a recent acquisition.

In relation to sales per geographic area, the trend experienced in the laser machine sector in 1999 continued as a result of an increase in sales in the domestic market more than proportional with respect to the total increase. In markets outside Europe, with particular reference to the United States, the acquisition of the subsidiary Convergent Prima constituted a determining factor which, thanks to its widespread commercial network overseas, will result in an increase in margins and an improvement in the Group's competitive position.

In Europe, the temporary contraction of 2-D machine sales is compensated by the 3-D sector, where the Company is maintaining a position of leadership.

The increase in the rest of the world is significant, a result of the intensification of commercial activity in China and Iran and the improvement in the economic climate of certain emerging countries.

	30/6/00		30/6/99	
	Millions of Lire	Quantity	Millions of Lire	Quantity
<b>2-D Products:</b>				
Italy	11,805	19	8,700	15
Europe	9,383	16	11,734	18
USA	1,146	2	1,590	2
Rest of world	1,620	3	494	1
<b>Total</b>	<b>23,954</b>	<b>40</b>	<b>22,518</b>	<b>36</b>
<b>3-D Products:</b>				
Italy	11,103	10	4,670	4
Europe	10,310	10	6,995	7
USA	2,238	2	2,242	2
Rest of world	4,798	3	-	-
<b>Total</b>	<b>28,449</b>	<b>25</b>	<b>13,907</b>	<b>13</b>

	30/6/00		30/6/99	
	Millions of Lire	Quantity	Millions of Lire	Quantity
<b>Electronic systems, other products and services:</b>				
Italy	7,157		3,774	
Europe	10,423		8,479	
USA	477		965	
Rest of world	199		628	
<b>Total</b>	<b>18,256</b>		<b>13,846</b>	
<b>Total laser products delivered</b>		<b>65</b>		<b>49</b>
<b>Laser generators and systems and services (Convergent Prima):</b>				
Italy	189		-	
Europe	484		-	
USA	3,067		-	
Rest of world	1,226		-	
<b>Total</b>	<b>4,966</b>		<b>-</b>	
<b>Total sales</b>	<b>75,625</b>		<b>50,271</b>	

In relation to information presented above, it should be noted that:

1. The percentage trend in the product breakdown of sales is as follows:

	30/6/00	30/6/99
Laser machines 2-D	31.67%	44.79%
Laser machines 3-D	37.62%	27.66%
Electronic systems, other products and services	24.14%	27.55%
Laser generators, systems and services (Convergent Prima)	6.57%	-
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

2. The percentage trend in the distribution breakdown of sales is as follows:

	30/6/00	30/6/99
Italy	40.00%	34.10%
Europe	40.47%	54.12%
USA	9.16%	9.55%
Rest of world	10.37%	2.23%
Total	100.00%	100.00%

#### OTHER REVENUES AND INCOME

In the six months to 30 June 2000, contributions amounting to Lire 844 million were recorded for research (project Eureka/Publics) for costs sustained on the project in the same period. In the first six months of 1999, no contributions were recorded since the contract was finalised in the course of 2000 (see also extraordinary income and expenses).

The remaining Lire 438 million relates to gains on disposals and other minor items.

#### PRODUCTION COSTS

Production costs sustained in the first six months of 2000 increased in line with the growth in volumes, which in turn resulted in a greater need for raw materials and manpower in the production process and an increase in the number of employees.

Overall, production costs increased 37.6% compared to an increase in production revenues of 41.6%.

#### DIFFERENCE BETWEEN PRODUCTION REVENUES AND COSTS (EBIT)

For the six months ended 30 June 2000, the difference between production revenues and costs amounted to Lire 6,893 million against Lire 3,394 million for the same period in 1999. The percentage against total sales increased from some 6.8% to some 9.1% primarily due to product mix, which, compared to 1999, increased in the 3-D segment.

#### FINANCIAL EXPENSES

In the six months to 30 June 2000, analogous to the same period in 1999, tax credits on dividends were recorded by the subsidiary, Prima Electronics for Lire 185 million.

Interest and other finance costs represent costs sustained by the Company in relation to financial instruments and the negative impact of exchange differences realised during the period.

Details of finance charges are as follows:

Interest expense on overdrafts	364
Discount on Sabatini Law transactions	1,036
Bank charges	186
Interest expense on Itainvest medium and long term loan	406
Factoring	3
Interest expenses on leasing transactions	17
Exchange differences	631
Other	59
Total	2,702

The discount on Sabatini Law transactions is offset by the same amount recorded in financial income.

Where possible (in Italy), companies utilise a form of financing (Sabatini) which permits it to accelerate the realisation of machine sales which are characterised by lengthy payment terms. In addition, the finance charges associated with such operations are the responsibility of the client.

#### EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income of Lire 1,766 million relates to capital contributions which are matched against costs sustained up to 31/12/99 for research in the sensor and monitoring sector relative to the laser process (project Publicis).

#### PROFIT BEFORE INCOME TAXES

Profit before taxes increased from Lire 2,838 million at 30/6/99 to Lire 7,679 million at 30/6/00. The percentage to total sales increased from 5.6% in 1999 to 9.1% in 2000 and confirms the excellent performance of the group during the period.

No assessment of income tax has been made for the period in accordance with article 81 of Consob regulation.

## OTHER INFORMATION

The average number of employees in the first six months of 2000 amounted to 301 compared to 256 for the year ended 31 December 1999 and 248 for the six months ended 30 June 1999.

The increase is due to physiological increase necessary to respond to the increase in Group activities and the acquisition of the American company, Convergent Prima which employed 80 people at 30 June 2000. However, in considering the calculation of the average number of employees, it is necessary to take account of the fact that this company was only recently acquired on 1 May 2000.

Employees at 30/6/00 can be divided geographically as follows:

							30/6/00	31/12/00
	Italy	France	Spain	Great Britain	Switzerland	USA	Total	Total
Prima Industrie SpA	190	6	5	3	3	-	207	190
Prima Electronics SpA	69	-	-	-	-	-	69	60
Prima US Inc.	-	-	-	-	-	6	6	6
Convergent Prima Inc.	2	-	-	4	-	74	80	-
Total	261	6	5	7	3	80	362	256

## AREA OF CONSOLIDATION

In addition to the companies included in the area of consolidation at 31/12/99, from 1 May 2000 Convergent Prima Inc. (held by Prima US Inc. for 80%) was included. All companies included in the area of consolidation are consolidated by utilising the line by line method.

## COMPANIES CONSOLIDATED UNDER THE LINE BY LINE METHOD

Company/ Headquarters	Currency	Share capital	Direct percentage held at 30/6/00	Indirect percentage held at 30/6/00
<b>Parent Company</b>				
Prima Industrie SpA Turin	Lire	17,140,000,000	-	-
<b>Subsidiaries</b>				
Prima Electronics SpA Turin	Lire	1,500,000,000	59.99%	-
Prima US Inc. Farmington Hills, Michigan, USA	US\$	50,000	100%	-
Prima Industrie GmbH Kronberg, Germany	DM	50,000	100%	-
Laserworld BV Amsterdam, The Netherlands	HFL	50,000	99%	1% (*)
Convergent Prima Inc. Sturbridge, Massachussets, USA	US\$	1 (***)	-	80% (**)

(\*) Held by Prima Electronics

(\*\*) Held by Prima US Inc.

(\*\*\*) Similar to many newly established American companies, the share capital is purely figurative (100 shares were issued with a nominal value of US\$ 0.01 each). The net assets (including goodwill) of the company, equivalent to the price paid, is US\$ 6.3 million.

## COMPANIES CONSOLIDATED UNDER THE PROPORTIONAL METHOD

There are no companies carried under the proportional consolidation method.

## COMPANIES CARRIED UNDER THE EQUITY METHOD

Company/ Headquarters	Currency	Share capital	Direct percentage held at 30/6/00	Indirect percentage held at 30/6/00
Shenyang-Prima Laser Machine Company Ltd. Shenyang, China	\$	1,000,000	50%	-

## INVESTMENTS CARRIED AT COST

Company/ Headquarters	Currency	Share capital	Direct percentage held at 30/6/00	Indirect percentage held at 30/6/00
Rambaudi Industriale SpA Turin	Lire	13,500,000,000	7.41%	-
Macro Meccanica SpA, in liquidation Turin	Lire	1,000,000,000	25%	-

For the Board of Directors

The Chairman

Dott. Aldo Palmeri