



**PRIMA INDUSTRIE GROUP**  
**BOARD OF DIRECTORS' REPORT**  
**ON THE CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE QUARTER ENDED**  
**MARCH 31, 2001**

This is a free translation from Italian original into English

Board of Directors  
May 11, 2001

**PRIMA INDUSTRIE S.p.A.** Paid-up Share Capital L. 18.000.000.000  
Company House of Turin  
Register no. 3549/80  
R.E.A. of Turin no. 582421

Registered office: Collegno (Turin)  
Via Antonelli, 32  
website internet: <http://www.primaindustrie.com>  
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**BOARD OF DIRECTORS (\*)** *Chairman of the Board*  
Aldo Palmeri

*Managing Director (CEO)*  
Gianfranco Carbonato

*Directors:*  
Giulia Della Rosa  
Sandro D'Isidoro  
Renato Russo  
Francesco Takanen  
(\*\*) Giuseppe Morfino  
(\*\*) Paolo Mazzotto

*Secretary*  
Giuseppe Favaloro

**General Manager** Alberto Delle Piane

**STATUTORY AUDITORS (\*\*\*)** *President of the Statutory Auditors Committee*  
Riccardo Formica

*Active Auditors*  
Andrea Mosca  
Roberto Petrignani

*Substitute Auditors*  
Roberto Coda  
Stefano Maria Ruggeri

**INDEPENDENT AUDITORS** PricewaterhouseCoopers S.p.A.

- (\*) Appointed by the Shareholders' Meeting of May 14, 1999 for the three years term 1999-2001  
(\*\*) Independent Directors appointed by the Shareholders' Meeting of May 11, 2001 for the term expiring December 31, 2001  
(\*\*\*) Appointed by the Shareholders' Meeting of May 11, 2001 for the three years term 2001-2003

#### **DIRECTORS' POWER**

The Board of Directors held on May 14, 1999 appointed Mr Gianfranco Carbonato Managing Director granting him all operating powers save those that the law reserves to the Board of Directors. Both, the Chairman and the Managing Director have the Company legal representation in accordance with article 23 of the Company bylaws.

## PRIMA INDUSTRIE GROUP

### BOARD OF DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED MARCH 31, 2001

(Approved by the Company Board of Directors held on May 11, 2001)

#### INTRODUCTION

This report covers the Group consolidated financial information up to March 31, 2001 prepared and divulged in accordance with article 2.6.2. of the New Market of the Italian Stock Exchange regulations and IA 2.4.1 of the Instructions and complies with article 82 of Consob rulings ex resolution 11971 and successive amendments. Datas related with the quarter under consideration have not been audited by PricewaterhouseCoopers SpA being not compulsory.

The information which follow have been prepared on same principles previously used by the Group for its interim and end-of-the year accounts. Therefore the comparison between the two periods 01/01/2001-03/31/2001 and 01/01/2000-03/31/2000 is homogeneous.

The financial statements concerning Prima Industrie SpA (the Group leader alone) as at March 31, 2001 are also herewith enclosed.

#### GENERAL NOTICE

As from January 1, 2001 for Prima Industrie SpA as well as for all the Italian companies of the Group the accounts are prepared in euro and therefore from this report onwards *all figures are expressed in thousands of euro* unless otherwise specified.

## THE GROUP ACTIVITY

During the period under consideration there have been no changes in the activity performed by Prima Industrie SpA nor by the other companies of the Group.

## ACCOUNTING PRINCIPLES

During the period under examination, there have been no changes on the accounting principles and therefore data comparison is consistent with those of the past.

In drawing the accounts have not been estimated values which could have not in anyway influenced the overall position of the Group.

However, estimation procedures eventually different from those normally practised still assure reliable information and communication to the market. Through the comment to the schedules which follows, is given explanation of such possible estimating procedures.

## FORM AND CONTENT OF THE CONSOLIDATED ACCOUNTS

The companies involved with the consolidation process have been consolidated using the line-by-line method. The area of consolidation, in respect of March 31, 2000 has changed because of the insertion of Convergent Prima Inc. (USA) as from May 1, 2000. Sales of this Company generate an increase of the consolidated turnover. In terms of profitability, Convergent Prima has instead registered a limited loss for the period due to interests and financial charges. However, the operating result of this 3 months of 2001 is basically a break-even. The Company turnaround goes on as expected though its consolidation generates a limited dilution effect, principally in percentage, on the Group gross profitability as it appears from the table which follows.

Participated companies which have not been consolidated are evaluated with the net assets method.

ELESTA AG, acquired on July 1, 2000 as at March 31, 2001 was held only for 60 percent of its capital and was not consolidated as at March 31, 2001 (it is classified as a financial activity not representing immobilisation) because is in course of being transferred to a third party. During the year 2001 a further portion of its share capital will pass hands leaving with us a 30 percent only. In any case its performance would have not significantly affected the financial and economical position of the Group.

The economic transactions between the consolidated companies of the Group and those evaluated with the net asset method do not generated any significant impact on the Group result.

CONDENSED INDICATION OF MOST SIGNIFICANT PARAMETERS AND FINANCIAL INDEXES (in thousands of euro excluding number of shares and profit per share)

	03/31/01	%	03/31/01	%	03/31/00	%
	including Convergent Prima		excluding Convergent Prima			
Sales	21,106	100.0	16,478	100.0	16,721	100.0
Mol/Ebitda	1,921	9.1	1,835	11.1	1,962	11.7
Operating profit (EBIT)	1,472	7.0	1,489	9.0	1,730	10.3
Profit before taxes (EBT)	1,544	7.3	1,645	10.0	1,482	8.9
Number of shares (face value 20,000 lire each)	900,000		900,000		857,000	
Mol/Ebitda per share	2.13		2.04		2.29	
Operating profit per share	1.64		1.65		2.02	
Profit before taxes per share	1.72		1.83		1.73	

RATES OF EXCHANGE USED TO CONVERT NON EURO CURRENCIES

Currency	Average exchange rate for the period		Period-end exchange rate	
	03/31/01	03/31/00	03/31/01	03/31/00
US dollar	0.9232	0.9866	0.8832	0.9553

## **MOST SIGNIFICANT EVENTS**

### **COMMERCIAL TREND**

The general slowing down of the capital goods market due to the international economic situation, of which we made a mention in our previous report as at December 31, 2000 was confirmed during the first quarter of the year 2001. In such period, as for Prima Industrie alone were acquired orders for a total value of Euro 17,653 thousand as against orders acquired during the same period of 2000 for Euro 16,669 thousand.

At the end of period, the order backlog for laser machines only is however important and in line with the previous year (Euro 24,685 thousand as against Euro 25,065 thousand as at March 31, 2000).

In consolidated terms the order backlog at March 31, 2001 is about Euro 38,700 thousand with considerable increase in respect of March 31, 2000 which was Euro 29,900 thousand. This is due to a very favourable trend of Prima Electronics as well as to the consolidation of Convergent Prima.

Having as a term of comparison the year 2000 which was particularly good, we must say that the first quarter of 2001 confirms the strength of our reference market also during slackening business cycles.

### **RESEARCH AND DEVELOPMENT CONTRIBUTIONS**

*Project Eureka/EU 1784 Publics* (file no. 64275 Push button machine). The contribution quota pertaining to the period in connection with the work carried out is Euro 142 thousand. In financial terms during March we cashed Euro 429 thousand. Remains a balance to be received (based on the files already approved in December 2000) of Euro 196 thousand. It is expected the project to be completed during the year 2003.

*Project MURST* (file no. 6175, related with the development of a cutting and welding system of high productivity and flexibility).

On the basis of the costs ascertained up to the end of November 2000, we have cashed during the first quarter (between February and March) Euro 526 thousand as a contribution (not be refunded) and Euro 1,483 thousand as a long term loan at the interest rate of 2 percent p.a..

We have further accounted, during the first quarter of 2001, as against the work carried-out in connection with the accomplishment of the project Euro 65 thousand. This project is expected to terminate by the year 2002.

The above is a prove of the Company commitment towards the development of new product and the improvement of those already existing.

## **SHORT-TERM EVOLUTION**

In closing the year 2000 in which the Group obtained an outstanding performance in terms of sales as well as gross profitability and considering the satisfactory orders collection realised during the first four months of the year 2001, we think we should look at the near future as a period of internal growth consolidation as, on the other hand, was anticipated during the second semester of the year 2000. The consolidation of the companies acquired will, in any case, generate a considerable increase of the year business volume as already shown during this first quarter (+ 26 percent).

We have in fact formalised a second strategical investment in North America by signing, on April 2, 2001, with the Group GSI Lumonics (listed at the Nasdaq and Toronto stock exchange) the agreement for the acquisition of our competitor Laserdyne (trade mark, products and inventory) leader on the USA market for tridimensional laser applications and world leader in the airspace sector.

The acquisition has been made by Prima US Inc. 100 percent owned by Prima Industrie SpA which has subsequently changed its name into Laserdyne Prima Inc. Located near Minneapolis (Minnesota – USA) in a modern factory of approximately 10,000 square meters, Laserdyne will bring to the Group an important patrimony of customers, installed systems (approximately 500) and highly skilled personnel (approximately 90 units).

A long and close negotiation in a difficult moment of the American economy (though the airspace sector in which Laserdyne realises more than 50 percent of its business is in a strong upward trend) gave us the possibility to limiting the price of the investment to around US\$ 9 million. However, the final price will be established within next few months on the basis of the accounts results as at April 2, 2001 subject to the verification of our Auditors PricewaterhouseCoopers.

From the financial point of view the investment will be paid trough a financial loan for about 50 percent and, the remaining 50 percent, trough a Prima Industrie SpA capital increase.

With this important acquisition trough which the Group will definitely achieve the world leadership in the sector of tridimensional laser applications, we think to have completed the strategical operations in USA. We are now actively working to make profitable the vertical integration with Convergent Prima (lasers) and that horizontal (products and markets) of Laserdyne Prima.

Today's shareholders' meeting of our Company beyond the approval of the Company balance sheet for the year 2000, have also resolved on some important issues such as:

- the text of Corporate Governance ruling and the assembly regulations;
- the Board of Directors extension from 6 to 8 members by appointing 2 independent directors.

Furthermore, as regards the Company stock of shares, it was defined:

- to translate from Lire into Euro the Company capital;
- to start the shares splitting process with a ratio of one to four and this means one existing share of 10 euro as against 4 new shares of 2.5 euro each. This will facilitate shares circulation.

The Board of Directors in examining this report has also approved the second "tranche" of the stock option plan (assigning for the two years 2001/2002 no. 37,000 option rights out of the 37,500 still available) involving managers and seniors of the Company of the Group including the American recent acquisitions.

We believe that this operation will strongly stimulate the Group managerial staff to continue in tenaciously pursuing the creation of value to the advantage of all shareholders considering that the assignment is done at market current value and that the exercising of the stock option is conditional to the reaching of pre-established targets of growth and profitability for each one Company involved as well as the Group.

On the basis of the general shareholders meeting resolutions of May 14, 1999 the Board has further decided a Prima Industrie SpA capital increase through the issuing of no. 65,000 new shares (equal to 260,000 after splitting) reserved to one or more institutional investors interested to the logic of medium term Company development. This operation will be finalised during the incoming month of June after the splitting operation being concluded.

## **REPORT ON OPERATIONS**

### **SALES**

Sales have been Euro 21,106 thousand with an increase of 26.2 percent on same period of the previous year (Euro 16,723 thousand).



At March 31 may be classified as follows:

BY PRODUCT AND GEOGRAPHICAL AREA

	03/31/01		03/31/00	
	Thousands of euro	%	Thousands of euro	%
<b>3D laser products:</b>				
Italy	1,146		2,567	
Europe	2,628		1,611	
USA	1,489		458	
Rest of world	396		1,514	
<b>Total</b>	<b>5,659</b>	<b>26.8%</b>	<b>6,150</b>	<b>36.8%</b>
<b>2D laser products:</b>				
Italy	2,393		3,519	
Europe	2,482		2,232	
USA	-		-	
Rest of world	1,096		470	
<b>Total</b>	<b>5,971</b>	<b>28.3%</b>	<b>6,221</b>	<b>37.2%</b>
<b>Electronics systems and other products and services</b>				
Italy	963		786	
Europe	2,090		1,793	
USA	-		8	
Rest of world	46		-	
<b>Total</b>	<b>3,099</b>	<b>14.7%</b>	<b>2,587</b>	<b>15.5%</b>
<b>Technical assistance and miscellaneous</b>				
Italy	748		524	
Europe	806		892	
USA	160		253	
Rest of world	62		94	
<b>Total</b>	<b>1,776</b>	<b>8.4%</b>	<b>1,763</b>	<b>10.5%</b>
<b>Subtotal</b>	<b>16,505</b>	<b>78.2%</b>	<b>16,721</b>	<b>100.0%</b>
<b>Laser generator, systems and services</b>				
Italy	269			
Europe	607			
USA	2,779			
Rest of world	946			
<b>Total</b>	<b>4,601</b>	<b>21.8%</b>		
<b>Sales total</b>	<b>21,106</b>	<b>100.0%</b>	<b>16,721</b>	<b>100.0%</b>

In connection with the above, it is noticeable the important Company growth in absolute values. The percentage weights must be valued in function of the Convergent Prima whose products did not appear on the first quarter statements of the year 2000. Excluding the effect due to the acquisition the turnover increased in absolute value because to the electronic products so confirming the excellent performance of the controlled Prima Electronics and its reference market. Still examining the absolute values it can be noticed the strong increase of the 3D laser systems on the European and North American markets and of the 2D systems on Asian and South American markets. On the contrary, it appears quite clear the decrease of the Italian market on both sectors probably awaiting the result of the incoming political election.

Referring to the laser machines only, the number of machines involved and delivered is the following:

	03/31/01		03/31/00	
	Machine number	%	Machine number	%
Total 3D machines	10	33.3%	11	36.7%
Total 2D machines	20	66.7%	19	63.3%
Total	30	100.0%	30	100.0%

Being the overall number machine same as for the previous year the mix composition is favourable to the 2D systems (lower prices) which in some way justifies the limited turnover reduction registered for this category of products.

The geographical distribution of sales is the following:

	03/31/01		03/31/00	
	Thousands of euro	%	Thousands of euro	%
Italy	5,519	26.1%	7,579	45.3%
Europe	8,613	40.8%	6,528	39.0%
USA	4,428	21.0%	536	3.2%
Rest of world	2,546	12.1%	2,078	12.5%
Total	21,106	100.0%	16,721	100.0%

The above show the increases registered in Europe in both, absolute values and percentages. It shows also the remarkable improvement of the American market mainly due to the Convergent Prima acquisition.

On the contrary even more evident it appears the slowing of the home market where, we must say, no loss due to competition was registered.

Thanks to suitable marketing strategies the Group realises, for the period, a good performance in terms of percentages but also to absolute values also on the Asian market.

### **MOL (EBITDA) AND OPERATING RESULT (EBIT)**

The gross operating profit as at March 31, 2001 is Euro 1,921 thousand (equal to 9.1 percent of turnover) basically in line in absolute values with same period of previous year (Euro 1,962 thousand equal to 11,7 percent on turnover).

The operating result as at March 31, 2001 is Euro 1,472 thousand (equal to 7 percent of turnover). Same period of previous year was Euro 1,730 thousand equal to 10.3 percent of turnover.

The reductions in percentages must be put in relation with the acquisition of Convergent Prima which materialised after the first quarter of the year 2000 whose operating break-even generates a dilution effect on the Group margins of profit.

The EBIT value calculated without Convergent Prima registers, however, a slowing-down trend due to a certain extend to transitory events (non structural) and for the rest to a certain pressure on sales prices and margins of profits connected with the general economic situation.

### **PROFIT BEFORE TAXES**

The gross profit is Euro 1,554 thousand (7.3 percent on turnover). Previous year was Euro 1,482 thousand (8.9 percent on turnover). The growth in absolute values was therefore equal to 4.2 percent.

The Group result before taxes exceeds by Euro 72 thousand the operating result because of the overall positive effect of the financial management for the period. In particular thanks to favourable exchange rate of the US dollar as at March 31, 2001 in connection with the increasing trend of the Company business in the dollar area.

## NET FINANCIAL POSITION

	03/31/01	12/31/00	03/31/00
Liquidity	5,218	4,421	5,404
Short-term debts towards banks	(7,393)	(6,741)	(2,772)
Medium/long-term debts towards banks and institutions short-term position	(3,486)	(2,970)	(360)
Medium/long-term debts towards banks and institutions – long-term position	(8,513)	(9,135)	(9,221)
Net position towards the system	(14,174)	(14,425)	(6,949)

Though the increase registered by the Company business volume, the Company net financial position did not basically changed because of the good management of the Company net working capital. This in turn registers, as it happens during the first quarter of every year (seasonal effects) a certain reduction of the receivables together with an inventory increase of semi-finished goods and consequent increase of the payables to suppliers.

At the end of the period the rate own financial means/third party financial remains superior to 2.

For the Board of Directors  
The Managing Director  
Ing. Gianfranco Carbonato

**PRIMA INDUSTRIE GROUP**

**FINANCIAL STATEMENTS AS AT MARCH 31, 2001**

(all amounts are expressed in thousands of euro)

**BALANCE SHEET**

	<b>03/31/2001</b>	<b>12/31/2000</b>	<b>03/31/2000</b>
	Unaudited	Audited	Unaudited
<b>ASSETS</b>			
<b>Assets</b>			
Intangible assets	3,960	3,629	964
Tangible assets	5,230	5,157	2,387
Total fixed assets	1,506	1,515	1,388
<b>Total assets</b>	<b>10,696</b>	<b>10,301</b>	<b>4,739</b>
<b>Working capital</b>			
Inventories	28,224	21,197	15,896
Trade receivables	36,288	44,687	29,867
Other receivables	6,806	878	4,051
Cash and banks	5,218	4,421	5,404
<b>Total working capital</b>	<b>76,536</b>	<b>71,183</b>	<b>55,218</b>
Accrued income and prepaid expenses	470	498	556
<b>Total assets</b>	<b>87,702</b>	<b>81,982</b>	<b>60,513</b>
<b>LIABILITIES</b>			
<b>Shareholders' equity</b>			
Shareholders' equity - Group	(*) 26,809	25,386	(*) 19,074
Minority interest	(*) 3,021	2,918	(*) 1,150
<b>Total shareholders' equity - Group</b>	<b>29,830</b>	<b>28,304</b>	<b>20,224</b>
Employees' severance pay	2,872	2,825	2,517
Contingent liabilities fund	4,621	4,749	2,099
<b>Loans</b>			
Medium-long term loans	8,513	9,135	9,221
Bank borrowings	7,393	6,741	2,772
Borrowing from other fin. institutions	3,486	2,970	360
Trade payables	24,519	20,977	18,366
Other payables	5,587	5,458	3,453
<b>Total loans</b>	<b>49,498</b>	<b>45,281</b>	<b>34,172</b>
Accrued liabilities and deferred income	881	823	1,501
<b>Total liabilities</b>	<b>87,702</b>	<b>81,982</b>	<b>60,513</b>

(\*) before income tax of the period

**PRIMA INDUSTRIE GROUP**

**STATEMENT OF INCOME AS AT MARCH 31, 2001**

(all amounts are expressed in thousands of euro)

	As at 03/31/2001	As at 03/31/2000
Revenues from sales and services	21,106	16,721
Changes in WIP and finished goods	3,723	2,419
Increase from internal work (assets)	15	45
Other revenues and income	355	116
<b>TOTAL VALUE OF PRODUCTION</b>	<b>25,199</b>	<b>19,301</b>
Purchase of raw materials and suppliers	(13,376)	(10,460)
Service expenses	(4,389)	(3,275)
Lease and rent costs	(433)	(140)
Other operating expenses	76	(377)
<b>TOTAL COSTS OF PRODUCTION</b>	<b>(18,122)</b>	<b>(14,252)</b>
<b>ADDED VALUE</b>	<b>7,077</b>	<b>5,049</b>
Personnel expenses	(5,156)	(3,087)
<b>MOL (EBITDA)</b>	<b>1,921</b>	<b>1,962</b>
Amortisation and depreciation	(449)	(232)
<b>OPERATING RESULTS (EBIT)</b>	<b>1,472</b>	<b>1,730</b>
Financial income and depreciation	72	(248)
Adjustments to financial assets	-	-
Extraordinary items	-	-
<b>PROFIT BEFORE INCOME TAX</b>	<b>1,544</b>	<b>1,482</b>
<b>- of which others</b>	<b>226</b>	<b>237</b>
<b>- of which Group</b>	<b>1,318</b>	<b>1,245</b>

**PRIMA INDUSTRIE SPA**

**FINANCIAL STATEMENTS AS AT  
MARCH 31, 2001**

**PRIMA INDUSTRIE SPA**

**FINANCIAL STATEMENTS AS AT MARCH 31, 2001**

(all amounts are expressed in thousands of euro)

**BALANCE SHEET**

	<b>03/31/2001</b>	<b>12/31/2000</b>	<b>03/31/2000</b>
	Unaudited	Audited	Unaudited
<b>ASSETS</b>			
<b>Assets</b>			
Intangible assets	1,321	1,076	931
Tangible assets	1,211	1,105	591
Financial assets	8,287	8,401	2,136
<b>Total fixed assets</b>	<b>10,819</b>	<b>10,582</b>	<b>3,658</b>
<b>Working capital</b>			
Inventories	13,768	9,719	11,924
Trade receivables	30,797	32,898	29,292
Other receivables	5,831	4,865	3,550
Cash and banks	4,495	3,087	3,774
<b>Total working capital</b>	<b>54,891</b>	<b>50,569</b>	<b>48,540</b>
Accrued income and prepaid expenses	439	675	545
<b>Total assets</b>	<b>66,149</b>	<b>61,826</b>	<b>52,743</b>
<b>LIABILITIES</b>			
<b>Shareholders' equity</b>			
Shareholders' equity	(*) 24,807	23,759	(*) 17,399
Employees' severance indemnity	2,082	2,071	1,822
Contingent liabilities fund	3,138	3,385	2,800
<b>Loans</b>			
Medium-long term loans	6,813	7,026	9,221
Bank borrowings	2,333	2,208	1,877
Borrowing from other fin. institutions	3,166	2,970	37
Trade payables	19,052	13,901	15,464
Other payables	4,151	5,715	2,832
<b>Total loans</b>	<b>35,515</b>	<b>31,820</b>	<b>29,431</b>
Accrued liabilities and deferred income	607	791	1,291
<b>Total liabilities</b>	<b>66,149</b>	<b>61,826</b>	<b>52,743</b>

(\*) before income tax of the period



**PRIMA INDUSTRIE SPA****STATEMENT OF INCOME AS AT MARCH 31, 2001**

(all amounts are expressed in thousands of euro)

	As at 03/31/2001	As at 03/31/2000
Revenues from sales and services	12,965	13,885
Changes in WIP and finished goods	2,988	1,693
Increase from internal work (assets)	-	24
Other revenues and income	371	132
<b>TOTAL VALUE OF PRODUCTION</b>	<b>16,325</b>	<b>15,734</b>
Purchase of raw materials and suppliers	(8,737)	(8,480)
Service expenses	(3,531)	(2,873)
Lease and rent costs	(284)	(152)
Other operating expenses	100	(506)
<b>TOTAL COSTS OF PRODUCTION</b>	<b>(12,452)</b>	<b>(12,011)</b>
<b>ADDED VALUE</b>	<b>3,873</b>	<b>3,723</b>
Personnel expenses	(2,769)	(2,332)
<b>MOL (EBITDA)</b>	<b>1,104</b>	<b>1,391</b>
Amortisation and depreciation	(200)	(211)
<b>OPERATING RESULTS (EBIT)</b>	<b>904</b>	<b>1,180</b>
Financial income and depreciation	249	(236)
Adjustments to financial assets	(105)	-
Extraordinary items	-	-
<b>PROFIT BEFORE INCOME TAX</b>	<b>1,048</b>	<b>944</b>