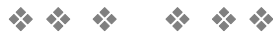




# PRIMA INDUSTRIE

QUARTERLY REPORT AT SEPTEMBER 30, 2006



Approved by the Board of Directors on November 13, 2006

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

Paid-in Capital Stock 11,500,000  
Euro  
Turin Companies' Register No.  
03736080015  
Turin R.E.A. No. 582421

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

**BOARD OF DIRECTORS <sup>(1)</sup>**

***Chairman and Managing Director***  
Gianfranco Carbonato

***Directors***

Sandro D'Isidoro  
Fabrizio Lugaresi <sup>(2)</sup>  
Mario Mauri <sup>(2)</sup>  
Domenico Peiretti  
Pio Pellegrini <sup>(2) (3)</sup>  
Marco Pinciroli (Managing Director)

***Secretary***

Massimo Ratti

**General Manager**

Ezio Basso

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

***Chairman***  
Riccardo Formica

***Auditors***

Andrea Mosca  
Roberto Petrignani

***Alternate auditors***

Roberto Coda  
Gianluigi Frigerio

**AUDITING COMPANY**

PricewaterhouseCoopers S.p.A.

<sup>(1)</sup> Appointed at the Stockholders' Meeting held on May 13, 2005 for the three-year period 2005-2007

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

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

<sup>(4)</sup> Appointed at the Stockholders' Meeting held on May 14, 2004 for the three-year period 2004-2006

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

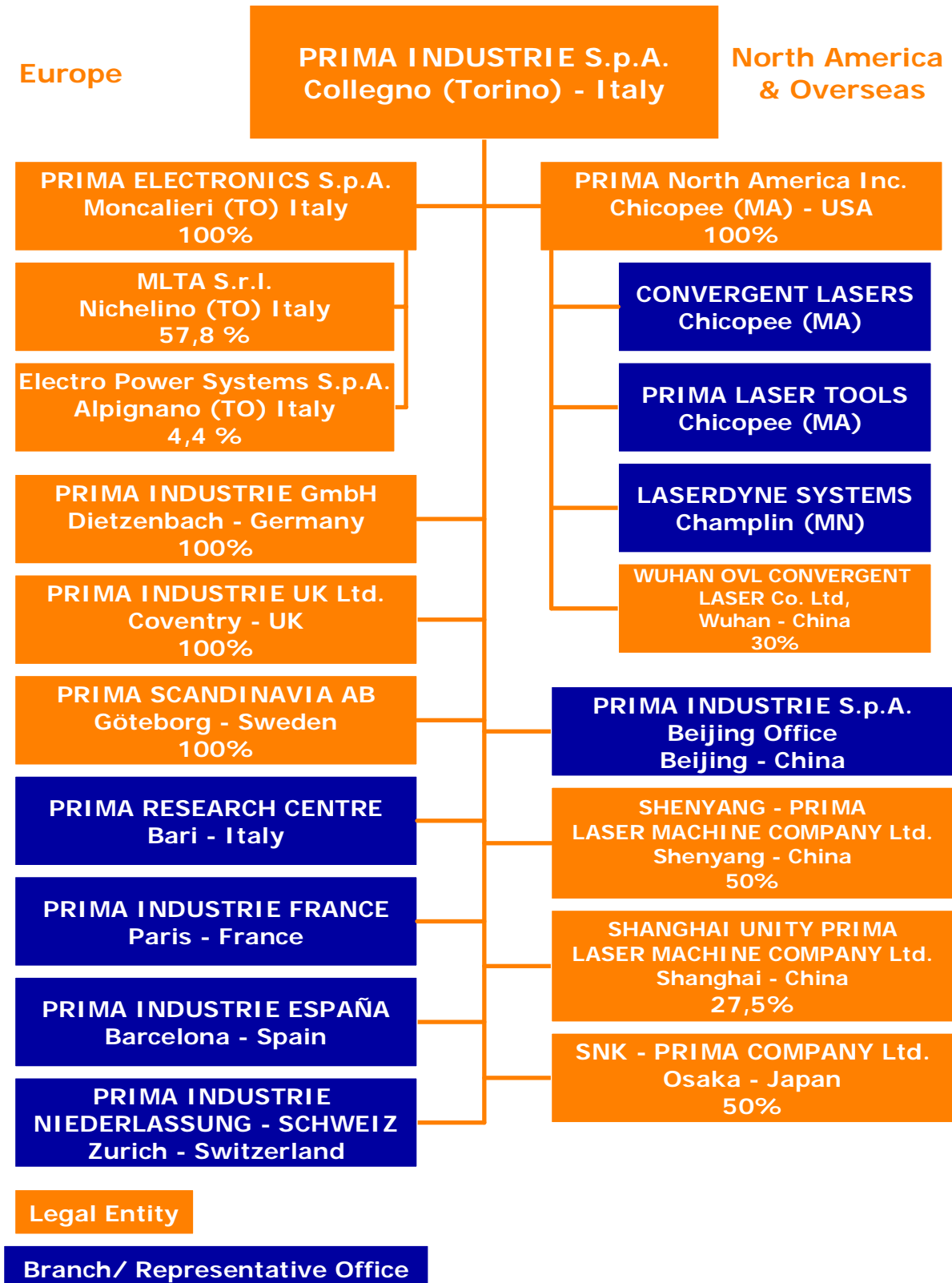
**POWERS RELATING TO COMPANY APPOINTMENTS**

In terms of resolutions dated May 13 and June 7, 2005 the Board of Directors appointed Gianfranco Carbonato as the Chief Executive Officer and determined his powers.

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

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# 1. STRUCTURE OF THE PRIMA INDUSTRIE GROUP



## 2. INTRODUCTION

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### NORMATIVE FRAMEWORK

In the application of European Regulation No. 1606 dated July 19, 2002 and in accordance with Issuers Regulation No. 11971, as amended by CONSOB regulation No. 14990 dated April 14, 2005 the PRIMA INDUSTRIE Group prepared the quarterly report at September 30, 2006, in accordance with the International Accounting Principles approved by the European Commission (hereinafter referred to individually as the IAS/IFRS or together, as IFRS).

In accordance with paragraph 8 of IAS 34 ("Interim Financial Statements"), the Quarterly report at 09/30/2006, includes the following:

- a) the summarized Balance Sheet
- b) the summarized Income Statement;
- c) the statement of Changes in Stockholders' Equity;
- d) the summarized Cash-Flow Statement and
- e) the specific explanatory notes required by paragraph 16 of IAS 34.

In addition, in accordance with the aforesaid section 82 of Issuers Regulation no. 11971 the quarterly report is also made up of the parent company's accounting statements, prepared in accordance with IAS/IFRS, because with effect from the 2006 financial year PRIMA INDUSTRIE S.p.A. is also obliged to prepare the Financial Statements in accordance with International Accounting Standards. The corresponding data relating to the previous financial period has thus been redetermined according to IAS/IFRS.

The quarterly information was not audited by the external auditors PriceWaterhouseCoopers S.p.A because no mandate was given to them, as there was no duty to submit the quarterly Financial Statements for audit.

This quarterly report was approved by the Board of Directors on November 13, 2006.

At 09/30/2006, the following companies were included in the area of consolidation:

SUBSIDIARIES		Capital Stock	Stake	Consolidation method
PRIMA ELECTRONICS S.p.A.	Strada Carignano 48/2 10024 Moncalieri (TO)	€ 1.500.000	100%	Line-by-line method
PRIMA North America, Inc.	Convergent Lasers Divison & PRIMA Laser Tools Division: 711 East Main Street Chicopee, MA 01020 (USA) Lasergyne Systems Division: 8600 109th Av. North Champlin, MN 55316 (USA)	USD 24.000.000	100%	Line-by-line method
PRIMA INDUSTRIE GmbH	Shöne Aussicht 5a Kronberg (D)	€ 500.000	100%	Line-by-line method
PRIMA SCANDINAVIA AB	Mölnsdalsvägen 30c SE-412 63 Goteborg (S)	SEK 100.000	100%	Line-by-line method
PRIMA INDUSTRIE UK LTD.	Unit 1, Phoenix Park Bayton Road Coventry CV7 90N, UK	GBP 1	100%	Line-by-line method
M.L.T.A. S.r.l.	Via Cuneo, 31 10042 Nichelino (TO)	€ 46.800	57,84%	Line-by-line method

ASSOCIATED COMPANIES & JOINT VENTURES		Capital Stock	Stake	Consolidation method
Shenyang PRIMA Laser Machine Company Ltd	Shenyang Liaoning Province, China 45 Huanghai Rd, Yuhong District	USD 2.000.000	50%	Equity method
SNK PRIMA Company Ltd	Misaki Plant Fuke, Misaki-Cho, Sennan-Gun, Osaka Japan, Shanghai 201111	Yen 90.000.000	50%	Equity method
Shanghai Unity PRIMA Laser Machinery Co Ltd.	2019, Kuyang Rd., Shanghai 201111 - China	Rmb 16.000.000	27,50%	Equity method
Wuhan OVL Convergent Laser Co., Ltd.	Building No.1, Great Wall Technology Industry Park, No.1, Townson Lake Road Wuhan East Lake High-Tech Development Zone Wuhan, 430223, Hubei, P.R. China	USD 6.800.000	30%	Equity method
Macro Meccanica S.p.A. (under dissolution)	V. don Sapino 134 10040 Venaria - Fraz. Savonera (TO)	L./mil. 630	35,48%	Cost method

On January 12, 2006, the Group through its subsidiary company PRIMA ELECTRONICS S.p.A increased its holding in M.L.T.A. S.r.l. to 57.84%. (M.L.T.A. S.r.l. operates in the sector dealing with the electronics of power). Thus, with effect from 01/01/2006, MLTA entered the area of consolidation.

## ALTERNATIVE PERFORMANCE INDICATORS

In addition to the indicators provided for in the layout of the Financial Statement prepared in accordance with International Accounting Standards, the Group and the company also used EBITDA ("Earnings before interest, taxes, depreciation and amortization), to measure their income performance; EBITDA is determined by adding to the Operating Income, as per the lay-out of the Financial Statements, the item "Amortization, depreciation and write-downs".

### 3. BUSINESS TREND

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#### REVENUES AND PROFITABILITY

Consolidated revenues for the first nine months of 2006, valued in accordance with IAS 18 (that provides for the recognition of revenue generally at the time of the end-customer's acceptance) amount to 100,479 thousand Euro.

This figure, which increased by 35.9% compared to 09/30/05 (when it was 73,937 thousand Euro) was earned as follows:

- 23.3% in Italy (33.2% at 09/30/05);
- 45.8% in Europe (37.7% at 09/30/05);
- 21.5% in North America (16.9% at 09/30/05)
- and 9.4% in Asia and the rest of the world (12.2% at 09/30/05).

An examination of this information reveals that the contraction in sales, mainly on the domestic market, was supported by a much higher level of sales on the European market in the first nine months of 2006 compared to the same period in 2005, and an excellent performance in the North American Market.

As regards the European markets there was general growth, with stronger increases in the countries in which the Group has a strong direct presence (Germany, Sweden and the UK) and in the emerging countries of Eastern Europe.

The turnover relative to the area Asia - rest of the world, had less percentage weight, even though it should be noted that, as usual, the total revenues do not consolidate the sales achieved by the Joint Ventures in China and Japan, in which JVs the Group does not hold a controlling interest.

Revenue in the third quarter of 2006 amounted to

- 33,802 thousand Euro, compared to 27,567 thousand Euro in the third quarter of 2005 (+22,6%).

The geographical breakdown of the sales is as follows:

- 23.4% in Italy (41.1% in the third quarter of 2005);
- 49.3% in Europe (29.5% in the third quarter of 2005);
- 19.9% in North America (17.0% in the third quarter of 2005) and
- 7.4% in Asia and the rest of the world (12.4% in the third quarter of 2005).

The marked change in the sales mix between Italy and Europe in the third quarter of 2006 compared to the third quarter of 2005, must be attributed to the fact that, in particular, in the third quarter of 2005 a higher number of machines were delivered to Italian customers both by PRIMA INDUSTRIE S.p.A. and by the LASERDYNE division.

Comparing the third quarter with the first part of the year, during the third quarter the impact of the USA market was slightly reduced, compared to the first six months, which period benefited from an increased number of LASERDYNE systems delivered in 2005 but accepted by the customer in the first quarter of 2006.

It should be noted that, compared to 09/30/2005, the sales in the USA for the first nine months grew markedly in absolute terms (+55,5%), not only due to LASERDYNE, but also due to the increased sales of the PRIMA LASER TOOLS division.

The percentage decline in the Overseas markets compared to the first quarter, largely due to the activities carried out *in loco* by the Joint Ventures, was also matched by an increase in absolute terms of about 5% compared to the first nine months of 2005.

At a product level, the expansion of the sales in the 2D systems sector (in particular PLATINO and SINCRONO) continued. This was accompanied by a satisfactory increase in the revenues from electronic products, after-sales services and spare parts and the substantial stability in the sales of 3 D systems.

In this sector a growth in the aerospace segment was matched by a decline in the automotive sector because of the unfavourable business trend in this industry, mainly in the European and North American market.

The growth in sales was matched by a growth in the value of production, which, at 09/30/06 amounted to 101,199 thousand Euro, 26.4% higher than the corresponding figure for the previous year (80,041 thousand Euro). At the end of the third quarter the figure amounted to 32,709 Euro compared to the 29,731 thousand Euro of the same period in 2005 (+10%).

All the profitability indexes showed significant growth compared to the previous years' figures. The Group's EBITDA amounting to 11,853 thousand Euro (11.8% of the sales) grew by 100.9% compared to the 5,898 thousand Euro at 09/30/2005. The consolidated EBIT (10,887 thousand Euro, equal to 10.8% of the sales) improved by 117.6% compared to the 5,002 thousand Euro at 09/30/05.

As far as the third quarter of 2006 is concerned, the consolidated EBITDA and EBIT, were equal respectively to 4,505 and 4,182 thousand Euro, as against 3,037 and 2,721 thousand Euro in the third quarter of 2005.

The increase in operating profit is reflected in the profit before tax at 09/30/2006 that amounted to 10,295 thousand Euro, a growth of 173.6%, compared to the 3,762 thousand Euro at 09/30/05. The figure for the quarter amounted to 4,077 thousand Euro (2,013 thousand Euro in the third quarter of 2005).

The net result generated at 09/30/2006 was 7,514 thousand Euro, more than three times the figure at 09/30/2005 which amounted to 2,304 thousand Euro. The third quarter of 2006, in particular, made a significant contribution of 3,021 thousand Euro to this figure.

In this regard, it should be borne in mind that the results at 09/30/2006 benefited from a reduced tax burden, largely due to an increased contribution to the consolidated result made by PRIMA North America that was able to benefit from prior years tax losses that could be utilized in the period.



It follows that the profit per share at 09/30/2006, attributable to the stockholders of the parent company, taking into account the average number of treasury stock held in the nine months, amounted to 1.63 Euro per share (compared to 0.50 Euro per share at 09/30/05).

## ORDERS ACQUISITION AND THE ORDERS BACKLOG

At 09/30/06 the consolidated orders acquisition amounted to 115,779 thousand Euro, with an increase of 41% compared to the 82,034 thousand Euro of the first nine months of 2005, thus continuing and reinforcing the favourable trend already observed from mid 2005.

In relation to the third quarter, the orders acquisition amounts to 33,562 thousand Euro, compared to the 30,617 thousand Euro of the third quarter of 2005.

The growth in the orders was evident in all sectors in which the company operates but was particularly significant in the 2D systems sector, owing to the excellent performance of the PLATINO systems and the growing contribution of the new SINCRONO.

The orders backlog at 09/30/06 amounted to 54,575 thousand Euro, with an increase of almost 50% compared to the 36,749 thousand Euro at 09/30/05.

## NET FINANCIAL POSITION

	09/30/06	06/30/06	12/31/05
CASH	13,956	15,238	11,767
SHORT-TERM BORROWINGS FROM BANKS AND OTHER LENDERS	(3,757)	(7,292)	(13,913)
LONG-TERM BORROWINGS FROM BANKS AND OTHER LENDERS <sup>(1)</sup>	(15,476)	(15,322)	(5,587)
TOTAL NET EXPOSURE TO THE CREDIT SYSTEM	(5,277)	(7,376)	(7,733)

<sup>(1)</sup> Also includes the leasing charges and the debt entries relating to the Sabatini pro-solvendo transactions in existence. This item amounts to 1,348 thousand Euro at 09/30/06 (it was 1,630 thousand Euro at 06/30/06).

The net financial position highlights the overall exposure to credit institutions and other lenders (including the Ministry of Productive Activities and leasing companies).

The net financial position (-5,277 thousand Euro at 09/30/06) decreased by about 2.5 million Euro compared to 12/31/05 (-7,733 thousand Euro) and by about 2.1 million Euro compared to 06/30/2006. The favourable trend in the quarter can be mainly attributed to the net cash flow from operating activities.

Compared to 12/31/2005 new medium/long-term loans were entered into for 11,674 thousand Euro (674 thousand in the third quarter), whereas loan instalments totalling 11,778 thousand Euro were repaid (3,475 thousand Euro in the third quarter).

The ratio between the net financial position (mainly made up of medium/long-term loans including the instalments falling due within 12 months) and stockholders' equity estimated on the basis of IAS/IFRS principles is 0.14 compared to 0.22 at 06/30/06.

## RESEARCH

As usual, the research carried out during the first nine months, totalling 6,111 thousand Euro (5,505 thousand Euro at 09/30/05) was accounted for in the Income Statement. Insofar as the third quarter is concerned this item amounted to 2,005 thousand Euro compared to the 1,776 thousand Euro of the third quarter of 2005.

During the third quarter of 2006 the parent company PRIMA INDUSTRIE carried out research aimed at the introduction, on new and existing products, of structures with new composite materials, which are light yet rigid, in order to obtain machines with increased acceleration and improved performance.

In particular the development of the new 3D machine the RAPIDO EVOLUZIONE, was completed, which machine inside the 3D range offers high-level performance in terms of speed, cutting accuracy and the size of the work surface. This machine was officially presented to the market in October at the Euroblech fair in Hanover.

In addition, in collaboration with PRIMA ELECTRONICS, the migration of the 3D systems to the new P20L control, continued. This transition should be completed by the end of 2006.

Over and above the activities of PRIMA ELECTRONICS referred to above one can cite the development of a range of inverters for the generation of electrical energy in alternating current starting from a primary source with cells of combustible and the development of an intelligent model for remote supervision fitted with a CanOpen interface and a GSM/GPRS modem capable of sending SMS messages in the event of a service request by the equipment to which it is connected.

In addition through the subsidiary M.L.T.A. the development of a new and innovative High Voltage Power Supply (HVPS) continued for high power CO<sub>2</sub> laser sources.

The American subsidiary PRIMA North America, on the other hand, continued with the development of the new line of "CV" Co<sub>2</sub> laser sources with power exceeding of 4 kW.

## TREASURY STOCK AND THE STOCK TREND

At 09/30/06 PRIMA INDUSTRIE S.p.A. held 5,500 ordinary shares (equal to approximately 0.12% of the capital stock) at an average weighted price of 21.349 Euro per share; these shares were acquired in the performance of the mandate granted by the Ordinary Stockholders' Meeting of 05/11/2006, which authorizes the purchase and sale of the Company's treasury stock up to a maximum of 200,000 shares (equal to approximately 4.3% of the subscribed and paid-up capital) for a duration of 18 months from the date of the resolution.

This resolution envisages a minimum buying and selling price of 2.5 Euro per share (equal to the par value) and a maximum buying price of € 30.00, whereas the maximum selling price can be determined on the basis of terms and conditions deemed expedient, from

time to time. As far as off-market deals are concerned, the agreed price must in any event not give rise to any loss for the Company.

On 09/28/2006, the subsidiary company PRIMA ELECTRONICS concluded - via the sale of 8,000 shares of PRIMA INDUSTRIE (equal to about 0.17% of the capital stock) - the selling program in respect of parent company stock, resolved upon by the Stockholders' Meeting of 07/19/06, realizing a satisfactory capital gain. Thus at 09/30/2006 PRIMA ELECTRONICS no longer holds shares of PRIMA INDUSTRIE.

As regards the treasury stock held by PRIMA INDUSTRIE, at 10/31/06 the portfolio increased to 6,535 shares at a weighted average price of 20.5604 Euro per share.

During the course of the third quarter of 2006, also due to the good results of the 2006 financial year, the favourable stock trend continued; the market peaked at the end of September reaching 21.90 Euro per share. This trend continued during October.

The stock trend and the STAR reference index for the period 01/01/06 to 11/06/06 are set out below.



It should be noted that on September 28 and 29, 2006 the company took part in the Road Show, reserved to companies belonging to the STAR segment, organized in London by the Italian Stock Exchange; during the course of these days PRIMA INDUSTRIE met many institutional investors.

## ***Earnings per share and dividend per share***

### *(a) Basic earnings per share*

The basic earnings per share is determined by dividing the profit due to the stockholders of the Parent Company, by the average number of shares in circulation during the period, excluding the ordinary stock acquired by the Parent Company, held as treasury stock in portfolio.

During the first nine months of the year, the stock in circulation amounted to 4,600,000, shares, whereas the average treasury stock held during the period amounted to 5,751 shares; thus the earnings per share for the period January-September 2006 amounts to 1.63 Euro per share (compared to 0.50 Euro per share for the first nine months of 2005).

<b><i>Earnings per share</i></b>	<b><i>September 30, 2006 30 September 2005</i></b>	
Earnings due to stockholders (Euro/1.000)	7,506	2,304
Weighted average - number of ordinary shares	4,594,249	4,589,245
Basic earnings per share (Euro)	1.63	0.50

### *(b) Diluted earnings per share*

The diluted earnings per share is determined by dividing the profit due to the stockholders of the Parent Company, by the average number of shares in circulation during the period, corrected by the potential number of shares, represented by the pre-emptive rights. The estimate of the potential number of shares is determined as an estimate of the number of shares that can be subscribed for, at the exercise price, given the value of the option.

Because at 09/30/06 no subscription rights on PRIMA INDUSTRIE's shares were in circulation, the calculation of diluted profit per share was not applicable.

### *(c) Dividend per share*

On 05/11/06 the Stockholders' Meeting resolved to pay a gross dividend per share on the 2005 profit of 0.28 Euro, to be paid to all the shares in circulation, excluding treasury stock held in portfolio at the cut-off date for the payment of the said dividend. On that date the treasury stock in portfolio amounted to 2,667 shares and thus the dividend to be distributed amounted to 1,287,253.24 Euro.

## DEVELOPMENT OF THE MINORITY INTEREST IN ELECTRO POWER SYSTEMS

The minority interest (2.2%) acquired by PRIMA ELECTRONICS on June 7, 2006 in Electro Power Systems S.r.l. (EPS), a “start-up” operating in the sector of “power systems” based on hydrogen fuel cell technology, had the following developments:

- On 06/26/2006 the EPS Members' Meeting resolved to transform the company from a limited liability company to a joint-stock company, making simultaneous provision for three successive capital increases.
- In October PRIMA ELECTRONICS subscribed for the first *tranche* of the said capital increase of 7,043 new shares with a disbursement of approximately 250 thousand Euro, thus bringing its holding in EPS up to 4.38%. This holding will increase to 6.34% by December, when PRIMA ELECTRONICS will pay the second *tranche* of the capital increase with a further payment of 250 thousand Euro.
- In June 2007, when another shareholder will effect payment of the last *tranche* of the capital increase, PRIMA ELECTRONICS' holding in EPS will be established at 6.1%.

Within the scope of the collaboration between PRIMA ELECTRONICS and the company, which has been in existence since 2005, it is also anticipated that PRIMA ELECTRONICS will design the electronic components used in the fuel cell “power systems”.

## EXTENSION OF PRIMA NORTH AMERICA'S PREMISES

During September the extensions to PRIMA NORTH AMERICA's premises in Chicopee (Massachusetts) were completed; the expansion of about 30% of the factory area (now about 8,175m<sup>2</sup>) in which the offices of CONVERGENT LASERS and PRIMA LASER TOOLS are situated resulted from the continued growth of the company, in order to meet the strong demand for the generators and laser systems of the Group. The new area will not only be used to increase the productive area, but also to improve the service activities and demo and training space, with the chance for customers to view the machines in operation (and particularly the new Sincrono) and to learn the latest progress in the laser technologies field.

The investment as at 09/30/2006 relating to the expansion amounts to approximately 150 thousand dollars.

## SALES ACTIVITY AND LAUNCH OF THE NEW 3D MACHINE

During October-November the Group took part in three very important sector fairs in the three main world markets: Fabtech (Atlanta – USA), Euroblech (Hanover – Germany) and Jimtof (Tokyo – Japan).

In particular, on the occasion of the Euroblech fair held at the end of October, PRIMA INDUSTRIE S.p.A. presented the new 3D machine, the RAPIDO EVOLUZIONE, to the public; the machine is the most recent product of the Group's ongoing commitment to

Research & Development to offer the market a range of products with improved performance which are at the forefront of technology.

The innovative features of the RAPIDO EVOLUZIONE are, in addition to the increased size of the work area, the high speed and precision of the cut, with a consequent drastic reduction in the times and, thus in the final manufacturing costs for the customer.

The introduction of this machine follows a few months after the launch of the new 2D system, the SINCRONO that has revolutionized two-dimensional cutting in terms of acceleration, quality and cutting precision.

#### ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

## RECONCILIATION OF GROUP AND PARENT COMPANY NET EQUITY AND NET RESULT AT SEPTEMBER 30, 2006

As per Parent Company's Financial Statements	30.787.102		(1.260.748)	699.032	30.225.386
Parent company shares held by Group companies			-		-
Fin. Statements of co.s consolidated using full consolidation method	14.658.345		(1.069.010)	7.412.924	21.002.259
<i>Adjustments for adaption to the IAS-IFRS accounting standards</i>					-
- Amortization of intangible fixed assets	(816.487)		55.659		(760.828)
- Adjustment to the value of the equity investment in MLTA held by Prima Electronics	(40.580)		68.950		28.370
<i>Consolidation adjustments:</i>					-
- Elimination of book value of equity investments	(12.840.913)		(132.503)		(12.973.416)
- Reversal of the effect of infra-group margins	(1.673.009)		63.606	(1.040.122)	(2.649.525)
- Reversal of Prima Electronics dividends	(600.000)		600.000		-
- Other minor adjustments	(89.487)		(39.467)	15.490	(113.464)
- Adjustment of JV valuation to SE	532.378		884	118.453	651.715
- Net deferred taxes on consolidation adjustments	921.864			308.247	1.230.111
- Minority equity and profit			(46.321)	(7.550)	(53.871)
<b>As per Consolidated Financial Statements</b>	<b>30.839.213</b>	<b>-</b>	<b>(1.758.950)</b>	<b>7.506.474</b>	<b>36.586.737</b>

## 4. PERFORMANCE OF THE MAIN COMPANIES OF THE GROUP

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### □ **Accounting principles and general comment**

As referred to in paragraph 2 (Introduction - Normative Framework) with effect from the first quarter of 2006, the Financial Statements of PRIMA INDUSTRIE S.p.A, the parent company, and those of Prima Electronics S.p.A., were prepared using International Accounting Principles.

As highlighted in the table below, at 09/30/06, the three main companies of the Group (PRIMA INDUSTRIE, PRIMA North America and PRIMA ELECTRONICS) achieved sales that were significantly higher compared to the same period of the previous financial year, with increases ranging from 54% (PRIMA North America) to 22% (PRIMA ELECTRONICS), whereas at a profitability level, they all showed positive result, with a net improvement compared to 09/30/05 (in particular PRIMA North America, recorded an operating profit for the period of 7.5 million USD)



## SUMMARY OF THE MOST SIGNIFICANT INCOME PARAMETERS AND RATIOS

(IN THOUSANDS OF EURO)

	PRIMA INDUSTRIE S.p.A.				PRIMA ELECTRONICS S.p.A.				PRIMA North America Inc.				Other subsidiary companies			
	09/30/06		09/30/05		09/30/06		09/30/05		09/30/06		09/30/05		09/30/06 <sup>(2)</sup>		09/30/05 <sup>(3)</sup>	
	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%	THOUSANDS OF EURO	%
Sales	64,843	100.0	49,156	100.0	14,844	100.0	12,133	100.0	36,523	100.0	23,134	100.0	14,648	100.0	4,308	100.0
Gross Operating Margin (EBITDA)	3,598	5.5	2,624	5.3	2,588	17.4	1,789	14.7	6,185	16.9	2,011	8.7	439	3.0	(9)	(0.2)
Operating income (EBIT) <sup>(1)</sup>	3,127	4.8	2,156	4.4	2,319	15.6	1,540	12.7	6,013	16.5	1,848	8.0	386	2.6	(24)	(0.6)

## EXCHANGE RATES USED FOR THE CONVERSION OF NON-EURO CURRENCIES

Currency	AVERAGE EXCHANGE RATE FOR THE PERIOD		CURRENT EXCHANGE RATE	
	09/30/06	09/30/05	09/30/06	12/31/05
US DOLLAR	1.244163	1.263491	1.266	1.1797
POUND STERLING	0.684722	0.68522	0.6777	0.6853
SWEDISH KRONA	9.294216	9.216187	9.2797	9.3885

(1) THE SUM OF THE INDIVIDUAL OPERATING RESULTS (AS PER THE TABLE) DIFFERS FROM THE CONSOLIDATED OPERATING RESULTS DUE TO THE EFFECTS OF THE CONSOLIDATION ADJUSTMENTS AND BECAUSE OF THE LACK OF UNIFORMITY IN THE ACCOUNTING PRINCIPLES OF REFERENCE;

(2) THE VALUES RELATE TO PRIMA INDUSTRIE UK LTD., PRIMA SCANDINAVIA AB, AND M.L.T.A. S.R.L.;

(3) THE VALUES RELATE TO PRIMA INDUSTRIE UK LTD., PRIMA SCANDINAVIA AB AND PRIMA INDUSTRIE GMBH.

## PRIMA INDUSTRIE S.p.A.

Sales at 09/30/2006 (64,843 thousand Euro) increased by 31.9% compared to 09/30/2005 (49,156 thousand Euro). The sales for the third quarter of 2006 amounted to 21,091 thousand Euro, compared to the 18,589 thousand Euro in the third quarter of 2005 (+13.4%).

The increase in the operating return was more than proportionate to the increase in sales, rising from 3,127 thousand Euro compared to 2,156 thousand Euro at 09/30/2005. As regards the third quarter, EBIT amounted to 971 thousand Euro compared to the 1,375 thousand Euro of the third quarter of 2005 due to certain provisions raised to the allowance for doubtful debts.

The net result went from 502 thousand Euro at 09/30/05 to 699 thousand Euro at 09/30/06; in particular the net profit for the third quarter was 101 thousand Euro. The quarter was in fact penalized compared to the same period in 2005 insofar as the entire 2005 financial year benefited, *inter alia* at a parent company level, from prior tax losses that were completely utilized during that financial year.

The good performance of the parent company should continue thanks to the orders backlog from third party customers that at 09/30/06 amounts to 27,542 thousand Euro - a growth of almost 45% compared to the 19,069 thousand Euro at 09/30/05.

## PRIMA ELECTRONICS S.p.A.

Sales increased to 14,844 thousand Euro compared to the 12,133 thousand Euro at 09/30/2005 (+22%); profitability was also markedly stronger with EBIT equal to 2,319 thousand Euro against the 1,540 thousand Euro at 09/30/2005 (+50,6%).

The data for the third quarter of 2006 highlights respectively sales of 4,802 thousand Euro and EBIT of 819 thousand Euro (the figures for the third quarter of 2005 were respectively 3,920 and 481 thousand Euro).

## PRIMA NORTH AMERICA Inc.

During the third quarter the very positive trend in PRIMA North America Inc. continued both in terms of sales as well as in terms of profitability, with excellent prospects for the closure of the entire 2006 financial year. In fact, in the first nine months of 2006 PRIMA North America achieved sales of 45.4 million Dollars compared to the 29.2 million Dollars for the same period of 2005 (+55%) with a positive EBIT of 7.5 million Dollars, in excess of three times the 2.3 million Dollars at 09/30/2005.

There was also a definite improvement at the level of operating profit in percentage that brought the EBIT margin from 8% at 09/30/2005 to 16.5% at 09/30/2006.

In particular, in the third quarter of 2006, PRIMA North America recorded sales of 14.6 million and reflected EBIT of 2.6 million Dollars, compared to the 11.8 and 1.5 million Dollars of the third quarter 2005.

The positive trend is common to all the business units as shown by the fact that all the three reflected a positive operating return in the six months, gross of the elisions arising from infra-company transactions.

During the nine months, CONVERGENT LASERS recorded sales and EBIT of 20.8 and 4.6 million Dollars (13.4 and 2.0 million Dollars at 09/30/2005), whereas LASERDYNE generated sales and EBIT of 15.4 and 2.6 million Dollars respectively (9.5 and 0.6 million Dollars at 09/30/2005). Finally, the PRIMA LASER TOOLS division achieved sales and EBIT for the nine months of 12.2 and 0.6 million Dollars respectively, compared to the 8.8 and -0,1 million Dollars of the first nine months of 2005.

All the divisions of the company are proceeding at elevated rhythms of production and sales and in particular CONVERGENT LASERS and LASERDYNE have exceeded the budget forecasts in terms of the number of systems delivered.

In addition, thanks to the increased number of laser sources sold CONVERGENT has amply exceeded in the expected operating profit in the nine months.

## OTHER SUBSIDIARY COMPANIES

The subsidiary PRIMA INDUSTRIE UK, that has a turnover in line with that of the same period in the previous financial year, has generated a slightly negative profitability in the nine months, owing to the seasonal nature of the sales, that does not prejudice the objective of the positive profitability anticipated at 12/31/2006.

Compared to 09/30/2005 the subsidiary PRIMA SCANDINAVIA recorded a strong increase in sales (more than 5.5 times higher) and consequently achieved a positive operating profit equal to 4.4% of sales.

PRIMA INDUSTRIE GmbH, which during the course of the second quarter of 2006, moved to its modern head office in Dietzenbach (Frankfurt), achieved sales in the first 9 months of the financial year of 5.5 million Euro and a positive EBIT of 0.1 million Euro. The excellent level of the orders backlog should allow PRIMA GmbH to look optimistically to the last part of the year and to the months to come.

A comparison with the first nine months of 2005 is not relevant in that PRIMA INDUSTRIE GmbH became operative on 07/01/2005.

As regards M.L.T.A. S.r.l., which entered the area of consolidation in 2006, sales and EBIT at 09/30/2006, re-determined in accordance with IAS-IFRS standards were respectively 1,270 thousand Euro and 74 thousand Euro, (about 6% of the sales) thanks to an improved performance compared to the first few months of the year.

## ASSOCIATES AND JOINT VENTURES

Amongst the associates, the continued growth of the Chinese JV Shanghai Unity Prima, should be noted; the JV in the first nine months of 2006 achieved sales of 78.7 million Rmb (approx. 7.7 million Euro) with an increase of 87% compared to the 42.1 million Rmb (approx. 4.1 million Euro) for the same period of 2005.

The company reflects an interesting earnings performance that brought the net profit of the period to 9.9 million Rmb (about 1 million Euro).



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

**5. CONSOLIDATED FINANCIAL STATEMENTS AT  
SEPTEMBER 30, 2006  
ACCOUNTING STATEMENTS**

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CONSOLIDATED BALANCE SHEET AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

VALUES IN EURO	Note	09/30/06	12/31/05
Tangible fixed assets		6.223.628	5.778.520
Intangible fixed assets		2.610.855	2.738.927
Equity investments valued using the equity method		1.901.493	1.809.079
Equity investments valued using the cost method		301.832	51.832
Other financial assets		265.374	272.117
Tax assets - prepaid taxes		6.905.838	6.946.898
Other receivables		42.923	52.391
<b>TOTAL NON CURRENT ASSETS</b>		<b>18.251.943</b>	<b>17.649.764</b>
Inventories	1	40.719.979	36.319.402
Trade receivables	2	38.803.132	39.869.959
Other receivables	3	2.907.987	3.048.672
Other tax assets		1.232.303	1.357.085
Tax assets - prepaid taxes			4.595
Derivative financial instruments		-	-
Cash and cash equivalents		13.955.879	11.495.383
<b>TOTAL CURRENT ASSETS</b>		<b>97.619.280</b>	<b>92.095.096</b>
Non current assets held for sale		-	-
<b>TOTAL ASSETS</b>		<b>115.871.223</b>	<b>109.744.860</b>
Share Capital		11.500.000	11.500.000
Treasury stock		(104.670)	(92.872)
Treasury stock owned by subsidiaries		-	-
Other reserves		19.150.373	16.656.427
Conversion reserve		(139.895)	329.937
Profits (Losses) carried forward		(1.325.545)	(2.661.910)
Profit (loss) for the year		7.506.474	5.107.631
Total Group stockholders' equity		36.586.737	30.839.213
Minority interests		53.871	-
<b>TOTAL NET EQUITY</b>		<b>36.640.608</b>	<b>30.839.213</b>
Loans		15.698.684	5.570.596
Employee benefits		4.990.387	4.936.694
Deferred tax liabilities		2.641.735	2.502.156
Provision for risks and charges	5	29.110	29.110
Derivative financial instruments		41.812	15.970
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>23.401.728</b>	<b>13.054.526</b>
Trade payables	4	28.245.480	23.089.151
Advances	4	10.503.833	18.371.290
Other payables	4	5.211.371	4.668.838
Amounts due to banks and i.r.o loans		3.756.974	13.918.168
Tax liabilities - current taxes		3.330.431	2.027.955
Provision for risks and charges	5	4.780.798	3.775.719
Derivative financial instruments		-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>55.828.887</b>	<b>65.851.121</b>
Liabilities due to non current assets held for sale		-	-
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>115.871.223</b>	<b>109.744.860</b>

## THE PRIMA INDUSTRIE GROUP - Consolidated Financial Statements at September 30, 2006

### CONSOLIDATED INCOME STATEMENT AT SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

(VALUES IN EURO)	09/30/2006	09/30/2005	III quarter 06	III quarter 05
Net revenues from sales and services	100.479.212	73.936.981	33.802.194	27.567.224
Other operating income	1.079.216	1.811.011	294.588	789.026
Changes in inventories of semifinished and finished products	(457.849)	4.253.363	(1.435.466)	1.367.825
Increases in fixed assets for internal work	98.850	40.181	48.451	7.550
Use of raw materials, consumables, supplies and goods	(45.455.203)	(38.707.469)	(13.761.755)	(14.437.788)
Personnel cost	(21.067.914)	(18.317.541)	(6.527.601)	(5.834.377)
Amortization & Depreciation	(966.187)	(896.175)	(323.518)	(316.070)
Impairment & Writedowns	-	-	-	-
Other operating costs	(22.823.268)	(17.117.910)	(7.915.308)	(6.421.573)
<b>OPERATING INCOME</b>	<b>10.886.857</b>	<b>5.002.441</b>	<b>4.181.585</b>	<b>2.721.817</b>
Financial income	428.620	361.415	263.249	34.360
Financial expenses	(1.210.504)	(1.556.701)	(489.826)	(599.992)
Net income from transactions in foreign exchange	71.990	12.713	(16.085)	(188.715)
Net income from associated companies & joint ventures	118.453	(58.241)	138.573	45.208
Net income from financial assets held for sale	-	-	-	-
<b>INCOME BEFORE TAX</b>	<b>10.295.416</b>	<b>3.761.627</b>	<b>4.077.496</b>	<b>2.012.678</b>
Current and deferred taxes	(2.781.392)	(1.457.886)	(1.056.839)	(485.828)
<b>NET RESULT</b>	<b>7.514.024</b>	<b>2.303.741</b>	<b>3.020.657</b>	<b>1.526.850</b>
Income from assets held for disposal	-	-	-	-
<b>NET PROFIT</b>	<b>7.514.024</b>	<b>2.303.741</b>	<b>3.020.657</b>	<b>1.526.850</b>
- Group stockholders' net profit	7.506.474	2.303.741	2.985.604	1.526.850
- Minorities net profit	7.550	-	35.053	-
<b>Earning per share (euro)</b>	<b>1,63</b>	<b>0,50</b>	<b>0,66</b>	<b>0,33</b>

THE PRIMA INDUSTRIE GROUP - Consolidated Financial Statements at September 30, 2006

CHANGE IN CONSOLIDATED STOCKHOLDERS' EQUITY AT SEPTEMBER 30, 2005 AND SEPTEMBER 30, 2006

AMOUNTS IN EURO

From January 1st, 2005 to September 30 th, 2005

	01/01/2005		Purchase/Sale of treasury stock	Gains on disposal of treasury stock	Losses on disposal of treasury stock	Allocation of result - Previous financial year	Distribution Dividends	Profit of the period	Conversion reserve	30/09/2005
Share Capital	11.500.000									11.500.000
Treasury stock	(170.606)		70.277							-100.329
Treasury stock owned by Subsidiaries	-									0
Share premium reserve	15.664.893									15.664.893
Legal reserve	729.550					41.360				770.910
Other reserve	0					79.554				79.554
Conversion reserve	(173.718)								315.271	141.553
Profit / (loss) carried forward	(2.911.767)			93.712	(7.640)	279.348				(2.546.347)
Income for the period	1.043.212					(400.262)	(642.950)	2.303.741		2.303.741
<b>Total Net Equity</b>	<b>25.681.564</b>		<b>70.277</b>	<b>93.712</b>	<b>(7.640)</b>	<b>-</b>	<b>(642.950)</b>	<b>2.303.741</b>	<b>315.271</b>	<b>27.813.975</b>

From January 1st, 2006 to September 30 th, 2006

	01/01/2006	Variation of consolidation area	Purchase/Sale of treasury stock	Gains on disposal of treasury stock	Losses on disposal of treasury stock	Allocation of result - Previous financial year	Distribution Dividends	Profit of the period	Conversion reserve	30/09/2006
Share Capital	11.500.000									11.500.000
Treasury stock	(92.872)		(11.798)							(104.670)
Treasury stock owned by Subsidiaries	15.664.893									15.664.893
Legal reserve	770.910					1.529.090				2.300.000
Other reserve	220.624					964.856				1.185.480
Conversion reserve	329.937								(469.832)	-139.895
Profit / (loss) carried forward	(2.661.910)	(28.370)		57.216	(20.252)	1.327.771				(1.325.545)
Income for the period	5.107.631					(3.821.717)	(1.285.914)	7.506.474		7.506.474
<b>Net Equity</b>	<b>30.839.213</b>	<b>(28.370)</b>	<b>(11.798)</b>	<b>57.216</b>	<b>(20.252)</b>	<b>-</b>	<b>(1.285.914)</b>	<b>7.506.474</b>	<b>(469.832)</b>	<b>36.586.737</b>
Minorities' interest										53.871
<b>Total Net Equity</b>										<b>36.640.608</b>

**CONSOLIDATED CASH-FLOW STATEMENT AT SEPTEMBER 30, 2006 & SEPTEMBER 30, 2005**

(thousand of euro)

	09/30/2006	09/30/2005
<b>Cash flow derived from operating activity</b>		
Profit (Loss) before tax	10.295	3.762
Adjustments	2.258	2.631
Amortization for the financial year	966	896
Provisions raised to Employees' severance fund	700	494
Loss (Profit) on exchange rates for currency transactions	(72)	(13)
Loss (Income) from equity investments	(118)	58
Financial expenses	1.211	1.557
Financial (income)	(429)	(361)
	<u>12.553</u>	<u>6.393</u>
(Increase) /Decrease in trade and other receivables	2.190	(3.707)
(Increase) /Decrease in inventories	(4.024)	(9.673)
Increase / (Decrease) in trade payables	(3.163)	8.528
Increase / (Decrease) in other payables	(151)	82
<i>Cash flow from typical activity</i>	7.405	1.623
Interest payment	(1.158)	(1.500)
Tax payment	(482)	(218)
<i>Cash flow derived from operating activity</i>	<u>5.765</u>	<u>(95)</u>
<b>Cash flow derived from investment activity</b>		
Purchase of MLTA	(39)	
Purchase of PRIMA GmbH		(976)
Purchase of tangible fixed assets	(1.276)	(726)
Purchase of intangible fixed assets	18	(364)
Sale /(Purchase) of financial assets (at cost)	(250)	(16)
Sale /(Purchase) investments in associates	26	(415)
Receipts from sales of fixed assets	53	39
Interest encashed	429	361
<i>Net Cash flow derived from investment activity</i>	<u>(1.039)</u>	<u>(2.097)</u>
<b>Cash flow derived from financing activity</b>		
Variation in the conversion reserve	(470)	315
(Purchase)/sale of treasury stock	25	156
Variation of other reserves	18	
Changes in balance- derivative instruments (FV)	31	298
Stipulation of loans and financing	11.674	5.842
Repayments of loans and financing	(11.778)	(3.371)
(Repayments)/ Raising of financial leases	(173)	(181)
(Repayments)/ Raising of Sabatini transactions	(306)	(588)
Dividends paid	(1.286)	(643)
<i>Net Cash flow derived from financing activity</i>	<u>(2.265)</u>	<u>1.828</u>
<b>Increase (decrease) in the cash and cash equivalents</b>	2.461	(364)
<b>Cash and cash equivalents at the start of the period</b>	11.495	6.448
<b>Cash and cash equivalents at the end of the period</b>	13.956	6.084



## 6. EXPLANATORY NOTES

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### □ GROUP ACTIVITIES

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

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

The main activity is focused in the cutting and welding laser machines sector.

PRIMA ELECTRONICS S.p.A.'s corporate mission is the design, manufacture and sale of mechanical, electrical and electronic equipment, systems and installations and the relevant software programs.

The company may also acquire and grant manufacturing licenses.

PRIMA NORTH AMERICA Inc. (incorporated in terms of American law) has three divisions:

- CONVERGENT LASERS DIVISION: which designs, manufactures, sells and renders assistance in respect of industrial lasers throughout the world.
- LASERDYNE SYSTEMS DIVISION: which designs, manufactures, sells and renders assistance in respect of Laserdyne systems throughout the world. These systems are specialized in the use of lasers for the production of components for aeronautic engines and turbines for the generation of energy.
- PRIMA LASER TOOLS DIVISION: which is engaged in the sale and installation in North America of Prime Industrie's products, as well as the provision of technical assistance in respect thereof.

PRIMA INDUSTRIE GmbH, (incorporated in terms of German law), is primarily engaged in providing after-sales services. The company recommenced operations with effect from 07/01/2005 pursuant to the acquisition of the branch of the business from Matra, relative to the distribution of the PRIMA machines on the German market.

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

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

M.L.T.A. S.r.l.'s corporate object is the development, design, production, marketing and maintenance of electronic, naval and automotive equipment, data transmission systems, automation and processing systems and software; in particular the company possesses special expertise in the power electronics sector.

## □ VALUATION CRITERIA

The same accounting standards as those used for the consolidated accounts for the year ended December 31, 2005, were applied for the preparation of the quarterly Financial Statements. In this regard, the reader is referred to the Annual Financial Statements for further information.

## □ DISCLOSURE OF ACCOUNTING STATEMENTS FORMAT

As far as the format of the Financial Statements is concerned, the Company has elected to use the same lay-out for both the Consolidated Financial Statements as well as the separate Financial Statements of the Parent Company.

More precisely:

- a) As regards the Balance Sheet the Company has adopted the format which reflects the assets and liabilities distinguishing between “current” (i.e. liquid/due within one year) and “non current” (i.e. liquid/due beyond one year);
- b) As regards the Income Statement, the company has adopted the format that provides for the allocation of costs according to their nature;
- c) As regards the statement of changes in Stockholders' Equity, the company has adopted the format that reconciles the opening and closing balances of each item of equity both for the period underway as well as for the previous one.
- d) As regards the Cash-flow Statement the Company elected the so-called “indirect” method, in which one determines the financial flow net of operating activities adjusting the profit and loss for the effects of:
  - Non monetary elements such as amortisation, depreciation, profits and losses on exchange and associated unrealized items;
  - Changes in the inventories, receivables and payables generated by the operating activities;
  - Other elements where the financial flows are generated from investment and financing activities.

## □ EXPLANATORY DETAILS

The detail of the more important changes in the items of the Financial Statements is provided below.

### Note 1. Inventories

	<u>09/30/2006</u>	<u>12/31/2005</u>
Raw materials	21.278.244	15.423.367
(Provision for writedown of raw materials)	(2.659.921)	(2.554.326)
Semi-finished products	10.734.177	6.877.487
(Provision for writedown of semi-finished products)		
Finished products	12.050.184	17.203.750
(Provision for writedown of finished products)	(682.705)	(630.876)
Material advances		
	<u>40.719.979</u>	<u>36.319.402</u>

The breakdown of the inventories at 09/30/06 highlights, on the one hand, the increase in raw materials and semifinished products, due to the increased volumes of orders acquired in the period and, on the other hand, the reduction of the stock of finished products due to the increase in the numbers of machines delivered in 2005, in respect of which acceptance took place during 2006.

### Note 2. Trade receivables

	<u>09/30/2006</u>	<u>12/31/2005</u>
Trade receivables	40.046.878	39.857.176
Allowance for doubtful accounts	(2.616.215)	(2.223.954)
Net Trade receivables	<u>37.430.663</u>	<u>37.633.222</u>
Amounts due by associated parties	1.372.469	2.236.737
Loans granted to associated parties	-	-
	<u>38.803.132</u>	<u>39.869.959</u>

In the face of substantial stability in the trade receivables, the increase in the writedowns of receivables for about 392 thousand Euro and the marked reduction in the amounts due to associated companies are relevant.

### Note 3. Other receivables

	<u>09/30/2006</u>	<u>12/31/2005</u>
Receivables for grants to be encashed	1.045.398	1.865.620
Other short-term receivables	1.736.371	1.076.995
Accrued income and prepaid expenses	126.218	106.057
<b>Total other receivables</b>	<b><u>2.907.987</u></b>	<b><u>3.048.672</u></b>

Compared to 12/31/2005, there has been a significant reduction (-821 thousand Euro) of the receivables for state grants to be encashed.

### Note 4. Trade and other payables

	<u>09/30/2006</u>	<u>12/31/2005</u>
Trade accounts payable	28.245.480	23.089.151
Amounts due to correlated parties		
<b>Total trade payables</b>	<b>28.245.480</b>	<b>23.089.151</b>
Advances from customers	10.503.833	18.371.290
<b>Total advances from customers</b>	<b>10.503.833</b>	<b>18.371.290</b>
Social security and welfare payables	1.013.665	1.090.953
Amts due to employees	2.554.392	2.625.638
Other short-term payables	705.573	257.633
Accrued expenses & deferred income	937.741	694.614
<b>Total Other payables</b>	<b>5.211.371</b>	<b>4.668.838</b>
<b>TOTAL</b>	<b><u>43.960.684</u></b>	<b><u>46.129.279</u></b>

The main changes in this item include the increase in trade payables (+5,156 thousand Euro), tied to the increase in production volumes and the reduction in the customer advances of 7,867 thousand Euro, which can be attributed to the increased number of machines that were already invoiced by PRIMA North America and PRIMA INDUSTRIE at 12/31/05, but accepted by customers during 2006.

## Note 5. Provision for risks

	Provision for agents' customer indemnity	Other minor items	Restructuring provision	E Provision	Total
<b>1 January 2005</b>	88.890	2.000	-	-	90.890
Amounts to the Income Statement:	-	-	-	-	-
- Provisions	8.758	-	-	-	8.758
- Re-transfer of excess provisions	-	-	-	-	-
Utilizations in the period	(68.538)	(2.000)	-	-	(70.538)
Amts assumed through acquisitions	-	-	-	-	-
Exchange differences	-	-	-	-	-
<b>31 December 2005</b>	29.110	-	-	-	29.110
Amounts to the Income Statement:	-	-	-	-	-
- Provisions	-	-	-	-	-
- Re-transfer of excess provisions	-	-	-	-	-
Utilizations in the period	-	-	-	-	-
Amts assumed through acquisitions	-	-	-	-	-
Exchange differences	-	-	-	-	-
<b>30 September 2006</b>	29.110	-	-	-	29.110

## Short-term provisions for risks

	Guarantee fund	Provision for profit sharing	Restructuring Provision	Others	Total
<b>1 January 2005</b>	1.968.972	-	-	-	1.968.972
Amounts to the Income Statement:	-	-	-	-	-
- Provisions	5.013.287	-	-	233.552	5.246.839
- Re-transfer of excess provisions	-	-	-	-	-
Utilizations in the period	(3.744.219)	-	(5.125)	(376.702)	(4.126.046)
Amts assumed through acquisitions	-	46.000	150.000	350.000	546.000
Exchange differences	139.954	-	-	-	139.954
<b>31 December 2005</b>	3.377.994	46.000	144.875	206.850	3.775.719
Amounts to the Income Statement:	-	-	-	-	-
- Provisions	2.406.921	-	-	93.250	2.500.171
- Re-transfer of excess provisions	-	-	-	-	-
Utilizations in the period	(1.205.096)	(46.000)	(144.875)	(18.975)	(1.414.946)
Amts assumed through acquisitions	-	-	-	-	-
Exchange differences	(80.146)	-	-	-	(80.146)
<b>30 September 2006</b>	4.499.673	-	-	281.125	4.780.798

There has been an increase in the guarantee provision (+1,122 thousand Euro), due to the increased number of systems accepted by customers in the first nine months of 2006.

## Note 6. Related Parties Operations

Related parties operations mainly regard the laser systems and components supply to the Joint Ventures in the Far East. The aforesaid supplies were made at market price.

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

### Period: 01/01/06 to 09/30/2006

	SHENYANG PRIMA LASER MACHINE CO.LTD	SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD	SNK PRIMA CO. LTD	KEY MANAGEMENT	TOTAL
RECEIVABLES AT 12/31/2005	2,042.972	-	660	-	2,043.632
RECEIVABLES AT 09/30/2006	1,329.119	-	600	-	1,329.719
PAYABLES AT 12/31/2005	-	-	-	51.750	51.750
PAYABLES AT 09/30/2006	-	-	-	134.274	134.274
REVENUES 01/01/01 - 09/30/2006	1,156.875	-	-	-	1,156.875
COSTS 01/01/01 - 09/30/2006	-	-	-	1,351.071	1,351.071
RECEIVABLES VARIATIONS 01/01/01 - 09/30/2006	(713.853)	-	-	-	(713.853)
PAYABLES VARIATIONS 01/01/01 - 09/30/2006	-	-	-	(82.524)	(82.524)

## Note 7. Significant non-recurring events

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

## Note 8. Atypical and/or unusual positions or transactions during the period

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

## Note 9. Net Financial Position

The breakdown of the Net Financial Position is provided hereunder.

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

<i>in thousand of euro</i>	<b>30/09/2006</b>	<b>31/12/2005</b>
A CASH	13.956	11.495
B OTHER CASH EQUIVALENTS	265	272
C SECURITIES HELD FOR TRADING PURPOSES	0	0
D CASH AND EQUIVALENTS (A+B+C)	<b>14.221</b>	<b>11.767</b>
E <b>CURRENT FINANCIAL RECEIVABLES</b>	0	5
F CURRENT BANK BORROWINGS	418	1.036
G CURRENT PORTION OF MEDIUM/LONG-TERM DEBT	3.249	12.534
H OTHER CURRENT FINANCIAL PAYABLES	90	348
I <b>CURRENT FINANCIAL INDEBTEDNESS (F+G+H) (CASH AND SECURITIES)</b>	<b>3.757</b>	<b>13.918</b>
J <b>NET CURRENT FINANCIAL INDEBTEDNESS / (CASH AND SECURITIES)(I-E-D)</b>	<b>(10.464)</b>	<b>2.146</b>
K NONCURRENT BANK BORROWINGS	12.898	2.331
L BONDS PAYABLE	0	0
M OTHER NONCURRENT PAYABLES	2.843	3.256
N <b>NONCURRENT FINANCIAL INDEBTEDNESS (K+L+M)</b>	<b>15.741</b>	<b>5.587</b>
O <b>NET FINANCIAL INDEBTEDNESS (J+N)</b>	<b>5.277</b>	<b>7.733</b>

Certain of the medium term loans in existence provide for "covenants", normally based on the ratio between the Net Financial Position and the EBIT and on the ratio between the Net Financial Position and Stockholders' Equity.

In this regard it must be noted that the company fully complies with these "covenants".

## **Note 10. Information in terms of § 116 et seq. of the IAS-IFRS 1**

The preparation of the Financial Statements requires Management to make a series of subjective assumptions and estimates based on past experience.

The application of these estimates and assumptions influences the amount of the assets and liabilities recorded in the Balance Sheet, as well as the costs and income disclosed in the Income Statement. The actual results can differ significantly from the estimate made, in view of the natural uncertainty that surrounds the assumptions and the conditions on which the estimates are based.

We set out hereunder a list of the main accounting entries whose formulation required management to formulate to a greater extent subjective assumptions and estimates.

### **Impairment of goodwill**

The goodwill relative to the Laserdyne and Convergent Lasers divisions of PRIMA North America, is periodically subject to the impairment test on the basis of the forecasted cash flows generated by the said business units.

The estimates of the cash-flows are based on the best forecast of the future results and require a series of assumptions relative to the trend of the reference markets, the competitive scenario and the costs of production.

In the event that the estimate is found to be inadequate, a re-determination of the value of the goodwill recorded in the Financial Statements will be made, with possible negative effects on income.

### **Deferred taxes**

The deferred tax assets and liabilities recorded in the Financial Statements are determined by applying to the differences between the value attributed to an asset or a liability according to Statutory criteria and the value attributed to that asset or liability for tax purpose, the tax rates that one presumes will be applicable in the different countries in the year in which one expects the timing difference to cease.

Deferred taxes relating to fiscal losses that can be carried forward to future financial years are recorded in the Financial Statements only if and to the extent that management believes that in future financial years the company concerned will achieve a positive tax result that will allow the deferred tax loss to be absorbed.

If, after the estimate was made, circumstances intervene that result in a change to the estimates or the rate used for the calculation of the deferred taxes, the items recorded in the Financial Statements will be adjusted.



## Allocation of the value of the assets and liabilities derived from business combinations

In the case of a business combination the purchaser is required to effect a valuation of the assets and liabilities acquired, attributing a fair value to them, which value may differ significantly from their book value.

In determining the fair value the purchaser is required to make a series of valuations that take into account the future cash flows, the economic and market outlook and a series of factors that may reveal themselves to be useful in order to determine the correct value.

The actual results may differ materially from the estimates made, thus requiring an adjustment to the amounts recorded in the Financial Statements in relation to the assets and liabilities acquired.

## Provisions for inventory obsolescence

In determining the provision for inventory obsolescence the Group companies effect a series of estimates relative to the future demand for the various types of products and materials in stock, on the basis of the production plan and past experience of customer demand.

If these estimates are found to be inappropriate, this will be translated into an adjustment to the provision for obsolescence with the relative impact in the Income Statement.

## Provisions for bad and doubtful debts

The provisions raised to the allowance for doubtful debts are set aside on the basis of an analysis of the individual debt positions in the light of the relationships with the individual customers.

If there is an unexpected worsening of the income-financial condition of an important customer, this could result in the need to adjust the allowance for doubtful debts, with the consequent negative effects on the Income Statement.

## Employee benefits

In many companies of the Group (particularly in Italy and Germany) benefit programs, prescribed by labour agreements or by law, are in existence; these benefits will be received on the termination of the working relationship.

The determination of the amount to be recorded in the Financial Statements requires actuarial estimates to be made that take into account a series of presumptions relating to parameters such as the annual rate of inflation, the growth in wages, the annual rate of staff turn-over and other variables.

Any changes in these parameters require a re-adjustment of the actuarial estimates and consequently the amounts disclosed in the Financial Statements.

□ **SECTOR REPORT**

The infra-sector revenues were determined on the basis of the market price using the “cost plus” method.

	<b>Laser systems</b>	<b>Electronics</b>	<b>Unallocated</b>	<b>Group</b>
Total segment revenues	89.522	14.844	-	104.366
Infra-segment revenues		(3.887)	-	(3.887)
<b>Income</b>	<b>89.522</b>	<b>10.957</b>	<b>-</b>	<b>100.479</b>
Operating profit/loss	9.613	1.274		10.887
Net financial income/expenses	(723)	13		(710)
Income/exp. from assoc. co. & Joint Ventures	118	-	-	118
<b>Operating profit/loss before tax</b>				<b>10.295</b>
Taxes				(2.781)
<b>Net profit/loss</b>				<b>7.514</b>

**Segment result - 09/30/2005**

	<b>Laser Systems</b>	<b>Electronics</b>	<b>Unallocated</b>	<b>Group</b>
Total segment revenues	64.433	12.133		76.566
(Infra-segment revenues)		(2.629)		(2.629)
<b>Income</b>	<b>64.433</b>	<b>9.504</b>	<b>-</b>	<b>73.937</b>
Operating profit/loss	4.156	846		5.002
Net financial income/expenses	(1.156)	(26)		(1.182)
Income/exp. from assoc. co. & Joint Ventures	(58)			(58)
<b>Operating profit/loss before tax</b>				<b>3.762</b>
Taxes				(1.458)
<b>Net profit/loss</b>				<b>2.304</b>

**Segment information - 9/30/2006**

	<u>Laser Systems</u>	<u>Electronics</u>	<u>Group</u>
Depreciation tangible fixed assets	624	229	853
Amortisation of intangible fixed assets	73	40	113
<b>Total</b>	<b>697</b>	<b>269</b>	<b>966</b>

**Segment information - 9/30/2005**

	<u>Laser Systems</u>	<u>Electronics</u>	<u>Group</u>
Depreciation tangible fixed assets	584	211	795
Amortisation of intangible fixed assets	62	39	101
<b>Total</b>	<b>646</b>	<b>250</b>	<b>896</b>

**Assets and liabilities - 09/30/2006**

	<u>Laser Systems</u>	<u>Electronics</u>	<u>Unallocated</u>	<u>Group</u>
Assets	76.067	15.242	22.359	113.668
Associated companies & Joint Ventures	2.070	133		2.203
<b>Total assets</b>	<b>78.137</b>	<b>15.375</b>	<b>22.359</b>	<b>115.871</b>
<b>Liabilities</b>	<b>45.863</b>	<b>7.897</b>	<b>25.470</b>	<b>79.230</b>

**Assets and liabilities - 09/30/2005**

	<u>Laser Systems</u>	<u>Electronics</u>	<u>Unallocated</u>	<u>Group</u>
Assets	84.089	14.068	15.477	113.634
Associated companies & Joint Ventures	1.259	68		1.327
<b>Total assets</b>	<b>85.348</b>	<b>14.136</b>	<b>15.477</b>	<b>114.961</b>
<b>Liabilities</b>	<b>51.053</b>	<b>6.919</b>	<b>29.175</b>	<b>87.147</b>

*On behalf of the Board of Directors*

*The Chairman*



*Gianfranco Carbonato*



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

## **7. FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006**

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## FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006

### BALANCE SHEET AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

<i>(VALUES IN EURO)</i>	<b>30/09/06</b>	<b>31/12/05</b>
Tangible fixed assets	3.082.480	3.038.861
Intangible fixed assets	152.780	98.697
Equity investments in subsidiaries	12.840.913	12.840.913
Equity investments valued using the equity method	1.249.778	1.249.778
Equity investments valued using the cost method	51.832	51.832
Loans to related parties	2.746.148	2.898.962
Other financial assets	265.190	258.484
Tax assets - prepaid taxes	3.369.280	3.859.224
Other receivables	9.153	9.446
<b>TOTAL NON CURRENT ASSETS</b>	<b>23.767.554</b>	<b>24.306.197</b>
Inventories	23.202.448	18.081.051
Trade receivables	34.826.347	33.997.642
Other receivables	2.141.233	2.652.279
Other tax assets	1.224.764	1.264.262
Derivative financial instruments		4.595
Cash and cash equivalents	9.028.179	7.138.093
<b>TOTAL CURRENT ASSETS</b>	<b>70.422.971</b>	<b>63.137.922</b>
<b>TOTAL NET EQUITY</b>	<b>94.190.525</b>	<b>87.444.119</b>
Share Capital	11.500.000	11.500.000
Treasury stock	(104.670)	(92.872)
Other reserves	19.150.373	16.656.427
Profits (Losses) carried forward	(1.019.349)	(1.181.405)
Profit (loss) for the year	699.032	3.904.952
Total Group stockholders' equity	<u>30.225.386</u>	<u>30.787.102</u>
<b>TOTAL NET EQUITY</b>	<b>30.225.386</b>	<b>30.787.102</b>
Loans	14.703.154	4.535.931
Employee benefits	3.592.892	3.616.835
Provision for risks and charges	28.000	28.000
Deferred tax liabilities	1.983.037	2.014.840
Derivative financial instruments	41.812	15.970
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>20.348.895</b>	<b>10.211.576</b>
Trade payables	25.723.427	20.521.385
Advances	6.927.601	8.726.329
Other payables	2.830.121	2.510.061
Amounts due to banks and i.r.o loans	3.341.290	11.386.273
Tax liabilities - current taxes	2.123.505	1.405.393
Provision for risks and charges	2.670.300	1.896.000
Derivative financial instruments		-
<b>TOTAL CURRENT LIABILITIES</b>	<b>43.616.244</b>	<b>46.445.441</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>94.190.525</b>	<b>87.444.119</b>

## FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006

### INCOME STATEMENT AT SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

(VALUES IN EURO)	09/30/2006	09/30/2005	III quarter 2006	III quarter 2005
Net revenues from sales and services	64.843.453	49.156.446	21.091.564	18.589.820
Other operating income	1.086.138	1.600.482	300.280	611.145
Changes in inventories of semifinished and finished products	1.038.019	3.406.372	(88.420)	927.386
Increases in fixed assets for internal work	74.850	21.181	45.451	5.550
Use of raw materials, consumables, supplies and goods	(35.745.991)	(28.857.883)	(10.967.545)	(10.761.829)
Personnel cost	(11.218.524)	(9.918.912)	(3.427.551)	(3.073.172)
Amortization & Depreciation	(470.745)	(468.430)	(158.432)	(165.145)
Impairment and writedowns		(69.293)	-	(8.717)
Other operating costs	(16.480.114)	(12.713.843)	(5.824.432)	(4.749.768)
<b>OPERATING INCOME</b>	<b>3.127.086</b>	<b>2.156.120</b>	<b>970.915</b>	<b>1.375.270</b>
Financial income	439.242	451.111	245.989	76.835
Financial expenses	(1.050.596)	(1.276.786)	(468.839)	(507.064)
Net income from transactions in foreign exchange	142.951	115.490	10.168	(57.650)
Net income from associated companies & joint ventures		(58.241)	-	45.208
Net income from transactions in foreign exchange				
<b>INCOME BEFORE TAX</b>	<b>2.658.683</b>	<b>1.387.694</b>	<b>758.233</b>	<b>932.599</b>
Current and deferred taxes	(1.959.651)	(886.056)	(657.466)	(238.061)
<b>NET RESULT</b>	<b>699.032</b>	<b>501.638</b>	<b>100.767</b>	<b>694.538</b>

## FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006

### CHANGE IN STOCKHOLDERS' EQUITY AT SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005

#### From January 1st, 2005 to September 30th, 2005

values in euro

	01/01/2005	Purchase/Sale of treasury stock	Gains on disposal of treasury stock	Losses on disposal of treasury stock	Allocation of result - Previous financial year	Distribution Dividends	Profit of the period	30/09/2005
Share Capital	11.500.000							11.500.000
Treasury stock	(170.606)	70.277						(100.329)
Treasury stock owned by Subsidiaries	-							-
Share premium reserve	15.664.893							15.664.893
Legal reserve	729.550				41.360			770.910
Other reserve	0	70.277			142.890			213.167
Conversion reserve	-							-
Profit / (loss) carried forward	(1.319.776)	(70.277)	93.712	(7.640)	104.535			(1.199.446)
Income for the period	931.735				(288.785)	(642.950)	501.638	501.638
<b>Net Equity</b>	<b>27.335.796</b>	<b>70.277</b>	<b>93.712</b>	<b>(7.640)</b>	<b>-</b>	<b>(642.950)</b>	<b>501.638</b>	<b>27.350.833</b>

#### From January 1st, 2006 to September 30th, 2006

	01/01/2006	Purchase/Sale of treasury stock	Gains on disposal of treasury stock	Losses on disposal of treasury stock	Allocation of result - Previous financial year	Distribution Dividends	Profit of the period	30/09/2006
Share Capital	11.500.000							11.500.000
Treasury stock	(92.872)	(11.798)						(104.670)
Treasury stock owned by Subsidiaries	15.664.893							15.664.893
Legal reserve	770.910				1.529.090			2.300.000
Other reserve	220.624				964.856			1.185.480
Conversion reserve	-							0
Profit / (loss) carried forward	(1.181.405)		57.216	(20.252)	125.092			(1.019.349)
Income for the period	3.904.952				(2.619.038)	(1.285.914)	699.032	699.032
<b>Net Equity</b>	<b>30.787.102</b>	<b>(11.798)</b>	<b>57.216</b>	<b>(20.252)</b>	<b>-</b>	<b>(1.285.914)</b>	<b>699.032</b>	<b>30.225.386</b>

**FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006**
**CASH-FLOW STATEMENT AT SEPTEMBER 30, 2006 AND SEPTEMBER 30, 2005**

<i>(values in euro thousand)</i>	<b>09/30/2006</b>	<b>09/30/2005</b>
<b>Cash flow derived from operating activity</b>		
<b>Profit (Loss) before tax</b>	<b>2.659</b>	<b>1.388</b>
<b>Adjustments</b>	<b>1.357</b>	<b>1.325</b>
Amortization for the financial year	471	468
Provisions raised to Employees' severance fund	418	274
Loss (Profit) on exchange rates for currency transactions	(143)	(115)
Loss (Income) from equity investments	-	(128)
Financial expenses	1.051	1.277
Financial (income)	(439)	(451)
	<b>4.015</b>	<b>2.712</b>
(Increase) /Decrease in trade and other receivables	212	1.672
(Increase) /Decrease in inventories	(5.121)	(6.314)
Increase / (Decrease) in trade payables	3.403	4.738
Increase / (Decrease) in other payables	(405)	(633)
<i>Cash flow from typical activity</i>	<b>2.104</b>	<b>2.175</b>
	-	-
Interest payment	(908)	(1.161)
Tax payment	(412)	(145)
<i>Cash flow derived from operating activity</i>	<b>784</b>	<b>869</b>
<b>Cash flow derived from investing activity</b>		
Purchase of tangible fixed assets	(462)	(299)
Purchase of intangible fixed assets	(126)	(90)
Sale /(Purchase) of financial assets (at cost)	146	393
Sale /(Purchase) investments in associates	-	(2.113)
Receipts from sales of fixed assets	20	-
Interest encashed	439	451
<i>Cash flow derived from investing activity</i>	<b>17</b>	<b>(1.657)</b>
<b>Cash flow derived from financing activity</b>		
Variation in the conversion reserve		
(Purchase)/sale of treasury stock	25	156
Changes in balance- derivative instruments (FV)	30	327
Stipulation of loans and financing	11.674	5.842
Repayments of loans and financing	(8.876)	(3.610)
(Repayments)/ Raising of financial leases	(173)	(181)
(Repayments)/ Raising of Sabatini transactions	(306)	(588)
Dividends paid	(1.286)	(643)
<i>Net Cash flow derived from financing activity</i>	<b>1.089</b>	<b>1.304</b>
<b>Increase (decrease) in the cash and cash equivalents</b>	<b>1.890</b>	<b>515</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>7.138</b>	<b>3.141</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>9.028</b>	<b>3.656</b>

On behalf of the Board of Directors  
The Chairman

  
Gianfranco Carbonato.