Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT AS OF JUNE 30th, 2006

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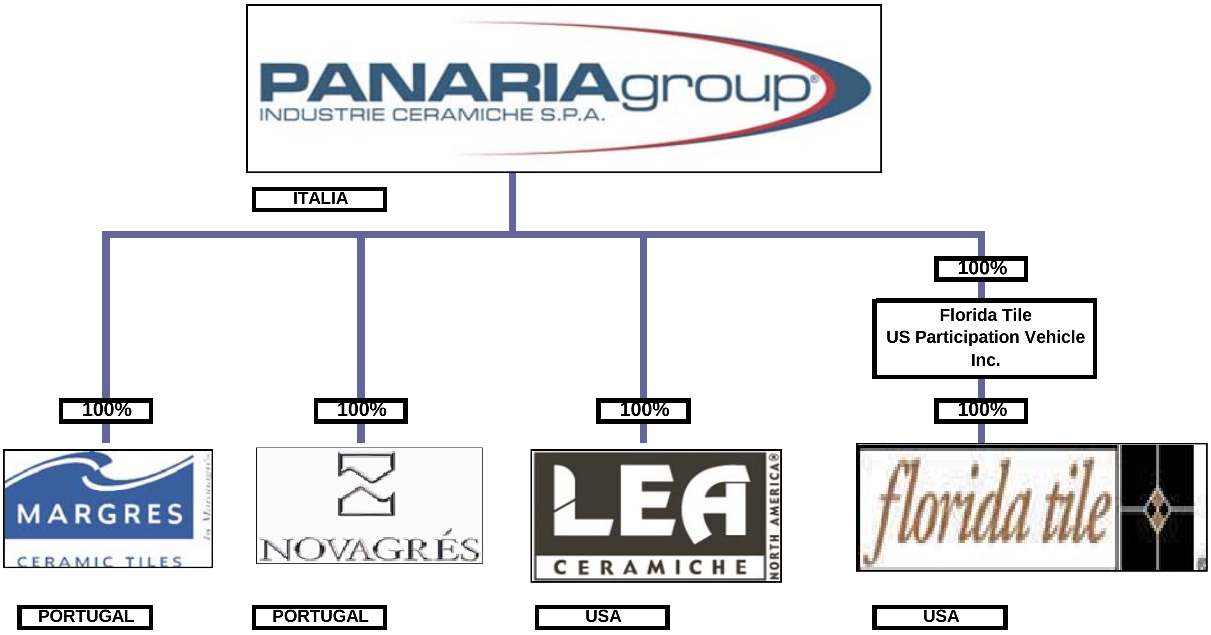
1. GROUP STRUCTURE

As of June 30th, 2006, the Group was structured as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena, Italy, with a fully paid-in share capital of Euro 22.677.645,50.

Panariagroup produces and distributes floor and wall ceramic tiles under 4 distinct brand names: Panaria, Lea, Cotto d'Este and Fiordo. All brands are positioned on the high and deluxe market segment, focused on porcelain grès tiles and sell their product lines both on the domestic as well as on foreign markets.

Maronagrês – Comércio e Indústria Cerâmica S.A., based in Ilhavo, Portugal, with a paid-in share capital of Euro 8,037,285.00, is fully owned by Panariagroup following its acquisition in October 2002. The Company is specialized in technical porcelain and glazed grès products and it is focused on the Portuguese market. Maronagrês' product lines are sold under the brand name Margres.

Novagrês – Indústria de Cerâmica S.A., based in Aveiro, Portugal, with a paid-in share capital of Euro 2,500,000.00 is fully owned by Panariagroup following its acquisition in November 2005. The company is specialized in big-size white body wall tiles and in glazed porcelain grès products and is focused on the Portuguese and on the main European markets.

Lea North America Inc., based in, Charlotte, North Carolina, USA, with a paid-in share capital of USD 20,000, is wholly owned by Panariagroup.

The company, that was incorporated on June 22nd, 2004 by Ceramiche Artistiche Lea, started its activity in July 2005, and operates in the marketing and distribution of the Lea brand products in North America.

Florida Tile U.S. Participation Vehicle Inc. , based in Wilmington, Delaware, USA, with a paid-in capital of USD 6,000,000, is fully owned by Panariagroup Industrie Ceramiche S.p.A. The company is the holding for the US market and holds only the participation in Florida Tile Inc.

Florida Tile Inc. based in Wilmington, Delaware, USA, with a paid-in capital of USD 6,000,000 that is fully owned by Florida Tile US Participation Vehicle, manufactures and distributes ceramic tile products in the US market through a directly managed distribution network mainly based on the East Coast.

It has to be noted that these last two companies has been incorporated in the context of the acquisition of Florida Tile's assets performed at the end of February 2006.

Variations in the consolidation scope

The present Quarterly Report includes for the first time the consolidation of Florida Tile US Participation Vehicle and Florida Tile Inc.

In the First Quarterly Report (31st March 2006), the two US companies were not consolidated since the analysis to define the accounting value of the acquisition following the IFRS 3 principle were not yet concluded.
The Investment of Panariagroup Industrie Ceramiche S.p.A. in Florida Tile U.S. Participation Vehicle Inc. were so recorded at "Acquisition Cost".

In the present Quarterly Report, in order to better compare the single Quarters, the consolidated financial situation at 31st March 2006 has been re-performed, including the two new companies in the consolidation scope already from the First Quarter, so.

- The Profit and Loss account of the Second Quarter includes three months of the activity of the new companies, while the costs and the revenues relating to the previous months (from the date of acquisition to the end of March 2006) have been re-allocated to the First Quarter.

- The Balance Sheet data and the Net Financial Position shown with reference to 31st March 2006 refer to the consolidated balance sheet re-performed with the consolidation also of the new two companies.

In order to allow the reconciliation between the First Quarterly Report already published, in Annex it is attached the financial data of the First Quarter without the consolidation of the two new US Companies and the financial data re-performed with the consolidation of the two new US Companies for the period from 25th February 2006 to 31st March 2006.

1. CORPORATE BOARDS

1.1 Board of Directors

Name and surname	Office	Place and date of birth
Giuliano Mussini	Chairman of the Board of Directors	Modena, 10/9/1930
Giovanna Mussini	Deputy chairman of the Board of Directors	Sassuolo (MO), 12/4/1959
Andrea Mussini	Managing Director	Sassuolo (MO), 15/5/1958
Emilio Mussini	Managing Director	Sassuolo (MO), 20/4/1961
Giuseppe Mussini	Managing Director	Sassuolo (MO), 23/11/1962
Paolo Mussini	Managing Director	Sassuolo (MO), 11/2/1958
Giuliano Pini	Managing Director	Modena, 21/5/1952
Marco Mussini	Director	Sassuolo (MO), 21/7/1971
Giovanni Burani(*)	Director	Parma, 20/10/1964
Alessandro Iori(*)	Director	Reggio Emilia, 15/6/1943
Paolo Onofri(*)	Director	Bologna, 11/11/1946

(*) Indipendent non-executive director

1.2 Board of Statutory Auditors

Name and surname	Office	Place and date of birth
Giovanni Ascari	Chairman of the Board of Auditors	Modena, 13/10/1935
Vittorio Pincelli	Standing auditor	Frassinoro (MO), 3/8/1943
Francesco Tabone	Standing auditor	Monza, 2/2/1956
Corrado Cavallini	Alternate auditor	Sassuolo (MO), 4/1/1971
Massimiliano Stradi	Alternate auditor	Sassuolo (MO), 16/3/1973

1.3 Independent Auditors

Deloitte & Touche S.p.A.

3. CONSOLIDATE P&L AND BALANCE SHEET

3.1 Consolidated Profit and Loss account

First Half 2006 / First and Second Quarter 2006

(in € / 000)

PROFIT AND LOSS ACCOUNT	Ist Half 06	%	1st Quarter 06	%	2nd Quarter 06	%
Revenues from sales and services	**182,350**	**93,8%**	**84,126**	**94,5%**	**98,224**	**93,2%**
Changes in inventories of finished products	8,960	**4,6%**	4,022	**4,5%**	4,938	**4,7%**
Addition to fixed assets	-	**0,0%**	-	**0,0%**	-	**0,0%**
Other revenues	3,167	**1,6%**	0,890	**1,0%**	2,277	**2,2%**
Value of Production	**194,477**	**100,0%**	**89,038**	**100,0%**	**105,439**	**100,0%**
Raw, ancillary and consumable materials	(56,548)	**-29,1%**	(25,743)	**-28,9%**	(30,805)	**-29,2%**
Services, leases and rentals	(71,923)	**-37,0%**	(33,559)	**-37,7%**	(38,364)	**-36,4%**
Personnel costs	(33,949)	**-17,5%**	(15,472)	**-17,4%**	(18,477)	**-17,5%**
Changes in inventories of raw materials	0,005	**0,0%**	0,349	**0,4%**	(0,344)	**-0,3%**
Other operating expenses	(2,291)	**-1,2%**	(0,884)	**-1,0%**	(1,407)	**-1,3%**
Cost of production	**(164,706)**	**-84,7%**	**(75,309)**	**-84,6%**	**(89,397)**	**-84,8%**
Gross operating profit	**29,771**	**15,3%**	**13,729**	**15,4%**	**16,042**	**15,2%**
D&A expenses	(7,895)	**-4,1%**	(3,793)	**-4,3%**	(4,102)	**-3,9%**
Provisions and impairments	(1,061)	**-0,5%**	(0,349)	**-0,4%**	(0,712)	**-0,7%**
Net operating profit	**20,815**	**10,7%**	**9,587**	**10,8%**	**11,228**	**10,6%**
Financial income and expense	(1,465)	**-0,8%**	(0,761)	**-0,9%**	(0,704)	**-0,7%**
Pre-tax profit	**19,350**	**9,9%**	**8,826**	**9,9%**	**10,524**	**10,0%**
Income taxes	(5,854)	**-3,0%**	(3,590)	**-4,0%**	(2,264)	**-2,1%**
Net profit for the period	**13,496**	**6,9%**	**5,236**	**5,9%**	**8,260**	**7,8%**

3.2 Consolidated Profit and Loss account

First Half 2006 / First Half 2005

(in € / 000)

CUMULATED	30/6/2006	%	30/6/2005	%	variaz.
Revenues from sales and services	**182,350**	**93,76%**	**124,251**	**92,65%**	**58,099**
Changes in inventories of finished products	8,960	4,61%	9,145	6,82%	(0,185)
Addition to fixed assets	0,000	0,00%	0,000	0,00%	0,000
Other revenues	3,167	1,63%	0,714	0,53%	2,453
Value of Production	**194,477**	**100,00%**	**134,110**	**100,00%**	**60,367**
Raw, ancillary and consumable materials	(56,548)	-29,08%	(36,291)	-27,06%	(20,257)
Services, leases and rentals	(71,923)	-36,98%	(51,030)	-38,05%	(20,893)
Personnel costs	(33,949)	-17,46%	(22,586)	-16,84%	(11,363)
Changes in inventories of raw materials	0,005	0,00%	0,311	0,23%	(0,306)
Other operating expenses	(2,291)	-1,18%	(1,454)	-1,08%	(0,837)
Cost of production	**(164,706)**	**-84,69%**	**(111,050)**	**-82,81%**	**(53,656)**
Gross operating profit	**29,771**	**15,31%**	**23,060**	**17,19%**	**6,711**
D&A expenses	(7,895)	-4,06%	(5,732)	-4,27%	(2,163)
Provisions and impairments	(1,061)	-0,55%	(0,744)	-0,55%	(0,317)
Net operating profit	**20,815**	**10,70%**	**16,584**	**12,37%**	**4,231**
Financial income and expense	(1,465)	-0,75%	1,059	0,79%	(2,524)
Pre-tax profit	**19,350**	**9,95%**	**17,643**	**13,16%**	**1,707**
Income taxes	(5,854)	-3,01%	(7,297)	-5,44%	1,443
Net profit for the period	**13,496**	**6,94%**	**10,346**	**7,71%**	**3,150**

3.3 Consolidated Profit and Loss account

Second Quarter 2006 / Second Quarter 2005

(in € / 000)

QUARTER	2nd Quarter 2006	%	2nd Quarter 2005	%	diff.
Revenues from sales and services	**98,224**	**93,16%**	**67,200**	**93,57%**	**31,024**
Changes in inventories of finished products	4,938	4,68%	4,242	5,91%	0,696
Addition to fixed assets	0,000	0,00%	0,000	0,00%	0,000
Other revenues	2,277	2,16%	0,378	0,53%	1,899
Value of Production	**105,439**	**100,00%**	**71,820**	**100,00%**	**33,619**
Raw, ancillary and consumable materials	(30,805)	-29,22%	(19,622)	-27,32%	(11,183)
Services, leases and rentals	(38,364)	-36,39%	(27,615)	-38,45%	(10,749)
Personnel costs	(18,477)	-17,52%	(11,465)	-15,96%	(7,012)
Changes in inventories of raw materials	(0,344)	-0,33%	0,319	0,44%	(0,663)
Other operating expenses	(1,407)	-1,33%	(0,836)	-1,16%	(0,571)
Cost of production	**(89,397)**	**-84,79%**	**(59,219)**	**-82,45%**	**(30,178)**
Gross operating profit	**16,042**	**15,21%**	**12,601**	**17,55%**	**3,441**
D&A expenses	(4,102)	-3,89%	(2,806)	-3,91%	(1,296)
Provisions and impairments	(0,712)	-0,68%	(0,439)	-0,61%	(0,273)
Net operating profit	**11,228**	**10,65%**	**9,356**	**13,03%**	**1,872**
Financial income and expense	(0,704)	-0,67%	0,688	0,96%	(1,392)
Pre-tax profit	**10,524**	**9,98%**	**10,044**	**13,98%**	**0,480**
Income taxes	(2,264)	-2,15%	(4,015)	-5,59%	1,751
Net profit for the period	**8,260**	**7,83%**	**6,029**	**8,39%**	**2,231**

3.4 Reclassified Balance Sheet

(in €/000)

	30/6/2006	31/3/2006	31/12/2005
Inventories	128,970	124,420	101,364
Accounts Receivable	121,021	114,259	94,177
Other current assets	3,739	4,565	2,817
CURRENT ASSETS	**253,730**	**243,244**	**198,358**
Accounts Payables	(78,830)	(75,524)	(61,323)
Other current liabilities	(40,794)	(40,523)	(29,461)
CURRENT LIABILITIES	**(119,624)**	**(116,047)**	**(90,784)**
NET WORKING CAPITAL	**134,106**	**127,197**	**107,574**
Goodwill	12,089	12,089	12,089
Intangible assets	2,543	2,415	0,551
Tangible assets	86,221	87,175	82,836
Equity Investments and other financial fixed assets	0,004	0,004	0,004
FIXED ASSETS	**100,857**	**101,683**	**95,480**
Receivables due after the following year	2,510	2,830	0,207
Provisions for termination benefits	(7,223)	(7,040)	(6,835)
Provisions for risks and charge and deferred taxes	(9,086)	(10,725)	(10,239)
Other payables due after the year	(5,454)	(6,127)	(2,357)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(19,253)**	**(21,062)**	**(19,224)**
NET CAPITAL EMPLOYED	**215,710**	**207,818**	**183,830**

Short term financial assets	(7,015)	(5,598)	(4,221)
Short term financial debt	51,332	40,503	40,503
NET SHORT TERM FINANCIAL DEBT	**44,317**	**34,905**	**36,282**
Mid-long term financial debt	23,946	24,380	4,371
NET FINANCIAL POSITION	**68,263**	**59,285**	**40,653**
Group Shareholders' Equity	147,447	148,533	143,177
SHAREHOLDERS' EQUITY	**147,447**	**148,533**	**143,177**
TOTAL SOURCES OF FUNDS	**215,710**	**207,818**	**183,830**

3.5 Net financial position

(in €/000)

	30/06/2006	31/03/2006	31/12/2005
Securities	-	-	-
Cash and cash equivalents	(7,015)	(5,598)	(4,221)
Short term financial assets	**(7,015)**	**(5,598)**	**(4,221)**
Due to banks	49,911	39,005	39,249
Financial payables to holding companies	-	-	-
Due to other lenders	1,421	1,498	1,254
Short term financial debt	**51,332**	**40,503**	**40,503**
Due to banks	21,586	21,845	1,818
Due to other lenders	2,360	2,535	2,553
Due to bondholders	-	-	-
Mid-long term financial debt	**23,946**	**24,380**	**4,371**
Net Financial Position	**68,263**	**59,285**	**40,653**

4. NOTES TO THE ACCOUNTS

4.1 Accounting standards and criteria

This consolidated quarterly report has been prepared in compliance with art. 82 of the enacting Regulations of Law Decree no. 58 dated February 24th, 1998 governing issuers (Consob Resolutions no. 11971 dated May 14th, 1999 and following amendments), and specifically in keeping with Appendix 3D of said Resolution.

Following the European Union regulation n.1606/2002, starting from First Consolidated Half Report 2005, the Group adopted the International Accounting Standard (IFRS), issued by International Financial Accounting Standards Board. The Accounting Principles adopted in the present Quarterly Report are the same applied from the first adoption of IFRS.
The accounting figures do not contain any estimates other than those normally used when preparing a set of annual accounts.

This report has not been audited.

The amount contained herein are shown and commented upon in thousand Euro, unless expressly indicated otherwise.

4.2 Consolidation scope

The consolidation scope includes:

- **Panariagroup Industrie Ceramiche S.p.A**., Parent Company;
- **Maronagres Comercio e Industria Ceramica S.A**., 100% owned;
- **Lea North America Inc.,** 100% owned;
- **Novagrês–Indústria de Cerâmica S.A**., 100% owned;
- **Florida Tile U.S. Participation Vehicle Inc**., 100% owned;
- **Florida Tile Inc**. 100% owned.

All the subsidiaries are consolidated on a line by line basis.

The consolidation scope is changed from 31st December 2005, in particular, in the first Quarter 2006 (at the end of February), Panariagroup closed an acquisition in the US market, finalized as follow:

- Incorporation of "Florida Tile US Participation Vehicle", a US Holding fully owned by Panariagroup Industrie Ceramiche S.p.A.
- Incorporation of "Florida Tile Inc.", operating company fully owned by Florida Tile US Participation Vehicle.
- Asset purchase for a total consideration of 22.5 million USD from Florida Tile Inc. The acquired assets were previously owned by Florida Tile Industries Inc., company specialized in manufacturing and in distributing floor and wall ceramic tile in the US market. The company has been operating in the US market for over 50 years.

As previously reported, in the moment of the editing of the First Quarterly report the analysis finalized at the determination of the fair value of the assets and liabilities assumed with the acquisition of Florida Tile Inc were not completed, therefore the two newly incorporated companies were not included in the consolidation scope.

In the present Quarterly Report, in order to better compare the single quarters, the accounting values at 31st March 2006 have been re-performed with the consolidation of the two new US Companies starting from the First Quarter 2006.

Novagres has been included in the consolidation scope from November 30th, 2005. Therefore the first Half 2005 report did not include this company, while it is fully included in the first Half 2006.

In the subsequent paragraphs will be highlighted the most important impacts coming from the change in the consolidation scope.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – First Half 2006
(in € / 000)

	30/6/2006	%	30/6/2005	%	var. €	var. %
Revenues from sales and services	**182,350**	**0,09%**	**124,251**	**0,09%**	**58,099**	**46,8%**
Value of Production	**194,477**	**100,00%**	**134,110**	**100,00%**	**60,367**	**45,0%**
Gross operating profit	**29,771**	**0,02%**	**23,060**	**0,02%**	**6,711**	**29,1%**
Net operating profit	**20,815**	**0,01%**	**16,584**	**0,01%**	**4,231**	**25,5%**
Pre-tax profit	**19,350**	**0,01%**	**17,643**	**0,01%**	**1,707**	**9,7%**
Net profit for the period	**13,496**	**0,01%**	**10,346**	**0,01%**	**3,150**	**30,4%**

The First Half performances are the result of the positive trend of Panariagroup and the acquisitions of Novagres and Florida Tile.

- **Consolidated net sales:** amounted to **182.3** million Euros, up by **46.8%** over the same period of 2005 (+ **7.1%** with the same consolidation scope).

- **Gross operating profit** amounting to **29.8** million Euros and **Net operating profit,** amounting to **20.8** million Euros, indicate a remarkable increase over 2005, respectively of **+ 29.1 %** and of **+ 25.5%**

- **Pre-tax profit:** was **19.3** million Euros, showing a **9.7%** increase over 2005 (+ 1.7 million Euros).

- **Net profit:** after estimated taxes, totalled **13.5 million** Euros, up **30.4%** (+ 3.1 million Euros) over June 2005.

Revenues

Net sales reported a growth rate of **46.8%** going from 124.2 million Euros in the First Half 2005 up to 182.3 million Euros as of June 30th 2006 (+58.1 million Euros); this sales increase has been partially determined by the “stand-alone” increase of Panariagroup, equal to 8.8 million Euros (+7.1 %) and for the rest by the consolidation of Novagres and Florida Tile.

Following the acquisition of these two new Brands in Panariagroup, the commercial strategy assumes a new aspect, towards a more marked internationalisation and with the configuration of three main poles: Italian market, European market and US market.

The new organization gives to Panariagroup an higher balance, with the guaranty of an higher diversification on different geographical area and a superior focus on markets with higher development opportunities for the high and deluxe market segment.

The main reference for Panariagroup remains the Italian market, passed from a 44% to a 32% incidence on the revenues, exclusively as an effect of the acquisitions.
To confirm the importance of the Italian market, it has to be remarked how all the Italian Brands of Panariagroup realised growth from 5% to 8% on the domestic market in a context of stability of the ceramic industry on this area.

The US market, with the acquisition of Florida Tile, become essential in the commercial development strategy of Panariagroup, reaching an incidence of 23% on the total sales.
This data is reduced from the non-inclusion of the two first months sales of Florida Tiles (acquired at the end of February 2006); it has to be noted that in the second Quarter the incidence of the US market on the total sales reached 28%.

On the European markets, the increase is satisfactory , or considering the whole Group (+40,3 %) either the Group with the same consolidation scope (7,0 %); this result derives from the good performances realized on all the main Countries such as Portugal, France, Germany, Belgium and Holland, as shown in the tables below.

The breakdown of sales by Panariagroup's major markets is:

Revenues by geographical area (gross of customer incentives) (amounts in thousand euros)

	Nation	*30/06/2006*	*30/06/2005*	*var.*	*%*
1	ITALY	60,249	55,688	4,561	8,2%
2	USA	42,858	10,381	32,477	312,9%
3	PORTUGAL	18,748	7,472	11,276	150,9%
4	FRANCE	16,185	10,521	5,664	53,8%
5	BELGIUM	10,094	9,042	1,052	11,6%
6	GERMANY	8,409	6,880	1,529	22,2%
7	HOLLAND	7,384	6,093	1,291	21,2%
8	SWITZERLAND	2,204	2,186	0,018	0,8%
9	UNITED KINGDOM	2,127	1,728	0,399	23,1%
10	GREECE	1,810	1,647	0,163	9,9%
	OTHERS	16,107	14,710	1,397	9,5%
	TOTAL	**186,175**	**126,348**	**59,827**	**47,4%**

The table a) does not include the 2005 sales of Novagres and of Florida Tile

b) includes the 2006 sales of Novagres

c) includes the 2006 sales of Florida Tile starting from the acquisition date

The following table shows instead the breakdown of sales with the same consolidation scope (excluding the 2006 Novagres' and Florida Tile's results):

Revenues by geographical area (gross of customer incentives) (amounts in thousand euros)

	Nazione	*31/03/2006*	*31/03/2005*	*var.*	*%*
1	ITALY	58,932	55,688	3,244	5,8%
2	USA	12,493	10,381	2,112	20,3%
3	FRANCE	10,969	10,521	0,448	4,3%
4	BELGIUM	9,617	9,042	0,575	6,4%
5	PORTUGAL	8,893	7,472	1,421	19,0%
6	GERMANY	7,726	6,880	0,846	12,3%
7	HOLLAND	6,943	6,093	0,850	14,0%
8	SWITZERLAND	2,030	2,186	(0,156)	-7,1%
9	GREECE	1,662	1,647	0,015	0,9%
10	UNITED KINGDOM	1,654	1,728	(0,074)	-4,3%
	OTHERS	15,039	14,710	0,329	2,2%
	TOTAL	**135,958**	**126,348**	**9,610**	**7,6%**

The table does not include the sales of Novagres (2005 and 2006) and the sales of Florida Tile (2005 and 2006)

Other than the Italian and US market already commented, it has to be remarked the results obtained in **Portugal**, which represents the first European market for Panariagroup: thanks to Margres increase on internal market (about 19%) and to the acquisition of Novagres, the gross revenues on this area passed from 7.5 million euros to 18.7 million euros.
With Margres and Novagres brands, Panariagroup is the first player on the Portuguese ceramic industry.

An important increase was achieved in **France** due to the significance presence of Novagres in this area; very important also the growths realised on **Germany ,Belgium and Holland,** where Panariagroup products have been confirmed as particularly appreciated.

The performance of the 7 brands distributed by Panariagroup can be summarized as follows:

- The **Panaria** brand shows a regular growth on internal and external markets (both **+ 6%**); on the external areas the more remarkable result is one more time the North-American area with a significant increase of 26.4%. of the US market (+22.1%).

- The **Lea** brand reports a positive increase of **4.8%**, the stability of the European markets is balanced by the good increase in the North-American area (+19,2%) and the positive performance on the domestic market (+5,0%)

- The **Cotto d'Este** brand fully confirms a "double digits" growth (**+10,2 %**), driven by the European Markets (+13,0%) and by the positive trend on the Italian Market (+7,1 %).

- The **Fiordo** brand continues with its gradual growth (**+7,6%**) deriving from an increase on the Internal Market and on the Overseas areas, and from a slight growth in the European Market.

- The **Margres** brand maintains an high growth rate (**+18,7 %**), thanks to the increasing success of the new lines of products and to the strategy of Brand-valorisation.

- The recently acquired **Novagres**, consolidated only in the First Half 2006, realized an increase in sales of **2%**, that could be seen in a very positive way, considering the possible negative effects that could be expected from change in ownership.

- The **Florida Tile** brand realised from the acquisition date (26th February 2006) to the end of the first Half 2006 gross revenues for 37.3 million dollars, all made in the US market.

The product types distributed by the companies included in the consolidation scope are: the porcelain gres (the core business of Panariagroup), the white body wall tiles, the single-fired floor tiles (exclusively of Florida Tile).
The Florida Tile brand sells also non ceramic material.

Revenues by type of product (gross of customer incentives) (in thousand euro)

Tipologia	*30/06/2006*	*30/06/2005*	*var.*
Porcelain gres	146,676	121,567	25,109
%	**78,8%**	**95,8%**	
White body wall tiles	24,493	4,272	20,221
%	**13,2%**	**3,8%**	
Single-fired floor tiles	7,602	0,509	7,093
%	**4,0%**	**0,4%**	
Non ceramic material	7,405	0,000	7,405
%	**4,0%**	**0,0%**	
Totale	**186,175**	**126,348**	**59,827**

The main variations of the period are related to the inclusion of the new two brands in the consolidation scope of Panariagroup.

The increase in Porcelain gres is the result of the growth of the historical Brand of the Group, mainly oriented on this type of products, and partially of the consolidation of Novagres and Florida Tile.

The relevant increase obtained in the segment of "White body wall tiles", is due to the Florida Tile brand (about 10.5 million Euros) and to the Novagres brand (about 9.3 million Euros), highly specialized in the production of wall tiles with high aesthetic and technologic content.
We expect significant synergies from the extension of the Novagres' wall tiles know-how on the Italian Brands, that have a great opportunity of development in this segment.

The increase in the segment "Single-fire floor tiles" is exclusively due to the inclusion of Florida Tile in the consolidation scope.

The "non ceramic material" is related to products sold by Florida Tile, supplied to complete tiles' sale, such as natural stones and laying and fixing tile materials.

For the year 2006 we don't expect significant changes in the product structure; the more important programs (with effects evident from 2007) are related to the gradual conversion of the lines of product of Florida Tile to porcelain gres and the above mentioned synergies regarding the white body wall tiles.

Operating costs

The operating costs of 2006 totalized 164.7 million Euros, increasing from the First Half of 2005 of about 54,0 million Euros; this variation is mainly determined by the following causes:

- the increase in the consolidation scope, with the inclusion of Novagres and Florida TIle
- the further increase in energy costs (electricity and natural gas) whose unit average cost raised up of about 33% over the First Half 2006 figures. The negative impact on the cumulated Profit and Loss account, determined by the price effect, amounted in 3.0 million Euros.

Operating results

The **Gross operating profit** totalled **29.8 million Euros**, showing a significant increase of 6.7 million Euros compared with the First Half 2005 (+**29.1**%).

The percentage decrease of Gross operating profit is due to the inclusion of Florida Tile in the consolidation scope, that, as expected, obtained a very reduced Gross operating profit; the operating profit, netted by this effect, had be on levels higher than 2005.

The critical level of the profitability of Florida Tile was already known during the acquisition process; it has to be noted that Panariagroup already started a plan of commercial and industrial development finalized to the improvement of the earning performances.

The total amount of Depreciation and amortization expenses and provisions is, in percentage, on the same levels of the first half 2006.

The **Net operating profit** reports an increase of 4.2 million Euros (+ **25.5**%)

The Financial incomes and expenses show a negative balance of 1.4 million Euros, while in the same period of the previous year reported a positive balance of 1.0 million Euros.

The decrease in the financial result is due to:

- the trend of Euro/Dollar exchange rate that generated significant gains in the First Half 2005, equal to 1.6 millions Euro, while in the first half 2006 the gain is of about 0,1 millions Euro.

- the increase in the Group's interest bearing loans mainly determined by the acquisition of Novagres (November 2005) and Florida Tile (February 2006), for a total consideration of 59 million Euros.

Estimated taxes decreased of about 1.4 millions Euro: the First Half tax rate (incidence of the income taxes on the pre-tax result) passed from 41.3 % to 30.2 %.
The decrease of the taxation, is mainly due to the utilisation by Panariagroup of the fiscal advantage of "realignment of values" of the amortisations, allowed by Italian "Legge Finanziaria" 2005.
The fiscal advantages deriving from this operation consented to account a gain in the First Half 2006 of about 1.8 million Euros, reported in the caption "Income Taxes"

Net profit amounts to 13.5 million Euros, with an increase of **30.4 %** (+3.1 million Euros) compared with the First Half 2005 figures.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	30/6/2006	31/3/2006	31/12/2005
Net Working Capital	**134,106**	**127,197**	**107,574**
Fixed assets	**100,857**	**101,683**	**95,480**
Assets / Liabilities due after year	**(19,253)**	**(21,062)**	**(19,224)**
NET CAPITAL EMPLOYED	**215,710**	**207,818**	**183,830**
Net Financial Position	**68,263**	**59,285**	**40,653**
Shareholders' equity	**147,447**	**148,533**	**143,177**
TOTAL SOURCES OF FUNDS	**215,710**	**207,818**	**183,830**

Net working capital

The Net Working Capital increase, equal to 26.5 millions Euros, is the result of the consolidation of Florida Tile and of the increase of the activity of Panariagroup.

Investments

The level of assets increased from the beginning of the year of about 5.4 million Euros.
The increase is due to:

- The acquisition of Florida Tile: in particular the value of the Investments acquired has been equal to 6.8 millions Euro;
- Fixed assets investments totalled 6.4 million Euros, mainly addressed to the normal plant replacement cycle aiming at guaranteeing the maintenance and improvement of an efficient production of all the plants of the Group.
- The amortization of the period of about 7.9 millions Euro.

Net financial position

Financial cash flow
(thousands euro)

	30/6/2006
Net financial position - beginning	**(40,653)**
Net Profit	13,496
D & A	7,895
Net Variation Provisions	(0,363)
Internal operating Cash flow	**21,028**
Change in net working capital	(14,690)
Dividend distribution	(8,608)
Net Investments	(6,439)
Florida Tile acquisition effect	(18,282)
Other movements	(0,619)
Net financial position - final	**(68,263)**

The Net Financial position reports a negative balance of 68.2 million Euros, with a negative change from the beginning of the year of about 27.6 million Euros.

The negative variation is mainly due to the cash flows related to the Florida Tile acquisition and to the dividend distribution, effected in the Second Quarter 2006.

5. OPERATIONAL OUTLOOK FOR THE GROUP

The targets for the next months are the further consolidation and improvement of the positive trend of the historical Brand of the Group, the completion of the Novagres integration process and the progressive actuation of the strategic guidelines planned for Florida Tile.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No Noteworthy events took place after the balance sheet date.

ANNEX

Impacts of the consolidation of Florida Tile U.S. Participation Vehicle Inc. e Florida Tile Inc. on the Quarterly Report at 31st March 2006

PROFIT AND LOSS ACCOUNT - FIRST QUARTER

PROFIT AND LOSS ACCOUNT - FIRST QUARTER	A	B
Revenues from sales and services	**84,126**	**75,220**
Changes in inventories of finished products	4,022	3,761
Addition to fixed assets	0,000	0,000
Other revenues	0,890	0,402
Value of Production	**89,038**	**79,383**
Raw, ancillary and consumable materials	(25,743)	(21,700)
Services, leases and rentals	(33,559)	(30,578)
Personnel costs	(15,472)	(13,192)
Changes in inventories of raw materials	0,349	0,349
Other operating expenses	(0,884)	(0,674)
Cost of production	**(75,309)**	**(65,795)**
Gross operating profit	**13,729**	**13,588**
D&A expenses	(3,793)	(3,625)
Provisions and impairments	(0,349)	(0,330)
Net operating profit	**9,587**	**9,633**
Financial income and expense	(0,761)	(0,884)
Pre-tax profit	**8,826**	**8,749**
Income taxes	(3,590)	(3,590)
Net profit for the period	**5,236**	**5,159**

Column A = Florida Tile Inc. and Florida Tile U.S. Participation Vehicle included in the consolidation scope

Column B = Florida Tile Inc. and Florida Tile U.S. Participation Vehicle NOT included in the consolidation scope (Financial Investment accounted at Acquisition Cost)

BALANCE SHEET AS OF 31st MARCH 2006

	A	B
Inventories	124,420	104,736
Accounts Receivable	114,259	105,731
Other current assets	4,565	3,327
CURRENT ASSETS	**243,244**	**213,794**
Accounts Payables	(75,524)	(66,905)
Other current liabilities	(40,523)	(33,831)
CURRENT LIABILITIES	**(116,047)**	**(100,736)**
NET WORKING CAPITAL	**127,197**	**113,058**
Goodwill	12,089	12,089
Intangible assets	2,415	0,569
Tangible assets	87,175	81,890
Equity Investments and other financial fixed assets	0,004	5,010
Intercompany financial credits	0,000	13,806
FIXED ASSETS	**101,683**	**113,364**
Receivables due after the following year	2,830	0,202
Provisions for termination benefits	(7,040)	(7,040)
Provisions for risks and charge and deferred taxes	(10,725)	(10,575)
Other payables due after the year	(6,127)	(2,232)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(21,062)**	**(19,645)**
NET CAPITAL EMPLOYED	**207,818**	**206,777**

Column A = Florida Tile Inc. e Florida Tile U.S. Participation Vehicle included in the consolidation scope

Column B = Florida Tile Inc. e Florida Tile U.S. Participation Vehicle NOT included in the consolidation scope