



Panariagroup Industrie Ceramiche S.p.A.

**QUARTERLY REPORT
AS OF SEPTEMBER 30th, 2006**



Panariagroup Industrie Ceramiche S.p.A.
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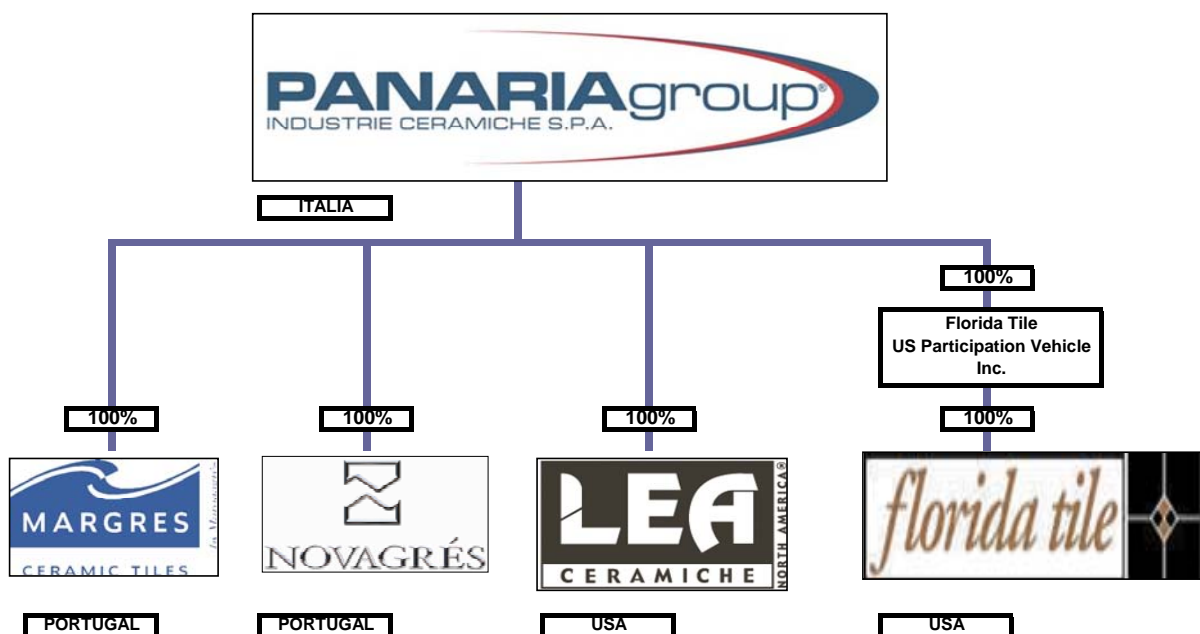
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1. GROUP STRUCTURE

As of September 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 porcelain 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 white body wall tiles and in porcelain grès products and is focused on the Portuguese and on the main European markets.

Lea North America Inc., based in 307, East Boulevard, Charlotte, Mecklenburg County, North Carolina, 28203, 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 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 have been incorporated in the context of the acquisition of Florida Tile's assets performed on February 24th, 2006.

2. CORPORATE BOARDS

2.1 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

(*) Independent non-executive director

2.2 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

2.3 Independent Auditors

Deloitte & Touche S.p.A.

3. CONSOLIDATE P&L AND BALANCE SHEET

3.1 Consolidated Profit and Loss account

Cumulated as of September 30th and by quarter (*)

(in € / 000)

PROFIT AND LOSS ACCOUNT	Cumulated	%	1st Quarter 06	%	2nd Quarter 06	%	3rd Quarter 06	%
Revenues from sales and services	265,404	94,1%	84,126	94,5%	98,224	93,2%	83,054	94,9%
Changes in inventories of finished products	11,686	4,1%	4,022	4,5%	4,938	4,7%	2,726	3,1%
Addition to fixed assets	-	0,0%	-	0,0%	-	0,0%	-	0,0%
Other revenues	4,936	1,8%	0,890	1,0%	2,277	2,2%	1,769	2,0%
Value of Production	282,026	100,0%	89,038	100,0%	105,439	100,0%	87,549	100,0%
Raw, ancillary and consumable materials	(83,947)	-29,8%	(25,743)	-28,9%	(30,805)	-29,2%	(27,399)	-31,3%
Services, leases and rentals	(105,399)	-37,4%	(33,559)	-37,7%	(38,364)	-36,4%	(33,476)	-38,2%
Personnel costs	(51,407)	-18,2%	(15,472)	-17,4%	(18,477)	-17,5%	(17,458)	-19,9%
Changes in inventories of raw materials	0,396	0,1%	0,349	0,4%	(0,344)	-0,3%	0,391	0,4%
Other operating expenses	(2,837)	-1,0%	(0,884)	-1,0%	(1,407)	-1,3%	(0,546)	-0,6%
Cost of production	(243,194)	-86,2%	(75,309)	-84,6%	(89,397)	-84,8%	(78,488)	-89,7%
Gross operating profit	38,832	13,8%	13,729	15,4%	16,042	15,2%	9,061	10,3%
D&A expenses	(11,997)	-4,3%	(3,793)	-4,3%	(4,102)	-3,9%	(4,102)	-4,7%
Provisions and impairments	(1,522)	-0,5%	(0,349)	-0,4%	(0,712)	-0,7%	(0,461)	-0,5%
Net operating profit	25,313	9,0%	9,587	10,8%	11,228	10,6%	4,498	5,1%
Financial income and expense	(2,620)	-0,9%	(0,761)	-0,9%	(0,704)	-0,7%	(1,155)	-1,3%
Pre-tax profit	22,693	8,0%	8,826	9,9%	10,524	10,0%	3,343	3,8%
Income taxes	(7,143)	-2,5%	(3,590)	-4,0%	(2,264)	-2,1%	(1,289)	-1,5%
Net profit for the period	15,550	5,5%	5,236	5,9%	8,260	7,8%	2,054	2,3%
Cash Flow	29,069	10,3%	9,378	10,5%	13,074	12,4%	6,617	7,6%

(*) The First Quarter 2006 includes only one month of Florida Tile's activity, since the US company was incorporated at the end of February 2006.

3.2 Consolidated Profit and Loss account

Cumulated as of September 30th 2006 and 2005 (*)

(in € / 000)

CUMULATED	30/9/2006	%	30/9/2005	%	variat.	var. %
Revenues from sales and services	265,404	94,11%	180,235	93,79%	85,169	47,25%
Changes in inventories of finished products	11,686	4,14%	10,885	5,66%	0,801	7,36%
Addition to fixed assets	0,000	0,00%	0,005	0,00%	(0,005)	100,00%
Other revenues	4,936	1,75%	1,041	0,54%	3,895	374,16%
Value of Production	282,026	100,00%	192,166	100,00%	89,860	46,76%
Raw, ancillary and consumable materials	(83,947)	-29,77%	(51,504)	-26,80%	(32,443)	62,99%
Services, leases and rentals	(105,399)	-37,37%	(74,463)	-38,75%	(30,936)	41,55%
Personnel costs	(51,407)	-18,23%	(32,429)	-16,88%	(18,978)	58,52%
Changes in inventories of raw materials	0,396	0,14%	0,278	0,14%	0,118	42,45%
Other operating expenses	(2,837)	-1,01%	(2,261)	-1,18%	(0,576)	25,48%
Cost of production	(243,194)	-86,23%	(160,379)	-83,46%	(82,815)	51,64%
Gross operating profit	38,832	13,77%	31,787	16,54%	7,045	22,16%
D&A expenses	(11,997)	-4,25%	(8,711)	-4,53%	(3,286)	37,72%
Provisions and impairments	(1,522)	-0,54%	(1,116)	-0,58%	(0,406)	36,38%
Net operating profit	25,313	8,98%	21,960	11,43%	3,353	15,27%
Financial income and expense	(2,620)	-0,93%	1,223	0,64%	(3,843)	-314,23%
Pre-tax profit	22,693	8,05%	23,183	12,06%	(0,490)	-2,11%
Income taxes	(7,143)	-2,53%	(9,628)	-5,01%	2,485	-25,81%
Net profit for the period	15,550	5,51%	13,555	7,05%	1,995	14,72%
Cash Flow	29,069	10,31%	23,382	12,17%	5,687	24,32%

(*) The consolidation scope as of September 30th, 2005 did not include Novagres and Florida Tile, that have been included respectively starting from November 30th 2005 and February 26th 2006.

3.3 Consolidated Profit and Loss account

Third Quarter 2006 and 2005 (*)

(in € / 000)

QUARTER	3rd Quarter 2006	%	3rd Quarter 2005	%	variat.	var. %
Revenues from sales and services	83,054	94,87%	55,984	96,43%	27,070	48,35%
Changes in inventories of finished products	2,726	3,11%	1,740	3,00%	0,986	56,67%
Addition to fixed assets	0,000	0,00%	0,005	0,01%	(0,005)	100,00%
Other revenues	1,769	2,02%	0,327	0,56%	1,442	440,98%
Value of Production	87,549	100,00%	58,056	100,00%	29,493	50,80%
Raw, ancillary and consumable materials	(27,399)	-31,30%	(15,213)	-26,20%	(12,186)	80,10%
Services, leases and rentals	(33,476)	-38,24%	(23,433)	-40,36%	(10,043)	42,86%
Personnel costs	(17,458)	-19,94%	(9,843)	-16,95%	(7,615)	77,36%
Changes in inventories of raw materials	0,391	0,45%	(0,033)	-0,06%	0,424	-1284,85%
Other operating expenses	(0,546)	-0,62%	(0,807)	-1,39%	0,261	-32,34%
Cost of production	(78,488)	-89,65%	(49,329)	-84,97%	(29,159)	59,11%
Gross operating profit	9,061	10,35%	8,727	15,03%	0,334	3,83%
D&A expenses	(4,102)	-4,69%	(2,964)	-5,11%	(1,138)	38,39%
Provisions and impairments	(0,461)	-0,53%	(0,387)	-0,67%	(0,074)	19,12%
Net operating profit	4,498	5,14%	5,376	9,26%	(0,878)	-16,33%
Financial income and expense	(1,155)	-1,32%	0,164	0,28%	(1,319)	-804,27%
Pre-tax profit	3,343	3,82%	5,540	9,54%	(2,197)	-39,66%
Income taxes	(1,289)	-1,47%	(2,331)	-4,02%	1,042	-44,70%
Net profit for the period	2,054	2,35%	3,209	5,53%	(1,155)	-35,99%
Cash Flow	6,617	2,35%	6,560	3,41%	0,057	0,87%

(*) The consolidation scope as of September 30th, 2005 did not include Novagres and Florida Tile, that have been included respectively starting from November 30th 2005 and February 26th 2006.

3.4 Reclassified Balance Sheet

(in €000)

	30/9/2006	30/6/2006	31/12/2005
Inventories	131,479	128,970	101,364
Accounts Receivable	108,296	121,021	94,177
Other current assets	3,500	3,739	2,817
CURRENT ASSETS	243,275	253,730	198,358
Accounts Payables	(72,041)	(78,830)	(61,323)
Other current liabilities	(38,310)	(40,794)	(29,461)
CURRENT LIABILITIES	(110,351)	(119,624)	(90,784)
NET WORKING CAPITAL	132,924	134,106	107,574
Goodwill	12,089	12,089	12,089
Intangible assets	2,485	2,543	0,551
Tangible assets	87,445	86,221	82,836
Equity Investments and other financial fixed assets	0,004	0,004	0,004
FIXED ASSETS	102,023	100,857	95,480
Receivables due after the following year	2,367	2,510	0,207
Provisions for termination benefits	(7,418)	(7,223)	(6,835)
Provisions for risks and charge and deferred taxes	(9,721)	(9,086)	(10,239)
Other payables due after the year	(4,932)	(5,454)	(2,357)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	(19,704)	(19,253)	(19,224)
NET CAPITAL EMPLOYED	215,243	215,710	183,830
Short term financial assets	(7,912)	(7,015)	(4,221)
Short term financial debt	49,825	51,332	40,503
NET SHORT TERM FINANCIAL DEBT	41,913	44,317	36,282
Mid-long term financial debt	24,045	23,946	4,371
NET FINANCIAL POSITION	65,958	68,263	40,653
Group Shareholders' Equity	149,285	147,447	143,177
SHAREHOLDERS' EQUITY	149,285	147,447	143,177
TOTAL SOURCES OF FUNDS	215,243	215,710	183,830

3.5 Net financial position

(in €000)

	30/09/2006	30/06/2006	31/12/2005
Securities	-	-	-
Cash and cash equivalents	(7,912)	(7,015)	(4,221)
Short term financial assets	(7,912)	(7,015)	(4,221)
Due to banks	48,541	49,911	39,249
Financial payables to holding companies	-	-	-
Due to other lenders	1,284	1,421	1,254
Short term financial debt	49,825	51,332	40,503
Due to banks	22,112	21,586	1,818
Due to other lenders	1,933	2,360	2,553
Due to bondholders	-	-	-
Mid-long term financial debt	24,045	23,946	4,371
Net Financial Position	65,958	68,263	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 figures do not contain any estimates other than those normally used when preparing a set of annual accounts.

The 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 December 31st 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 distributing floor and wall ceramic tile in the US market. The company has been operating in the US market for over 50 years.

Novagres Industria de Ceramica S.A. has been included in the consolidation scope from the acquisition moment (November 30th, 2005). Therefore the first nine months 2005 report did not include this company, while it is fully included in the data as of September 30th 2006.

In the subsequent paragraphs, where considered significant, 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 – Figures as of September 30th 2006

(in € / 000)

	30/9/2006	%	30/9/2005	%	var. €	var. %
Revenues from sales and services	265,404	94,11%	180,235	0,09%	85,169	47,3%
Value of Production	282,026	100,00%	192,166	100,00%	89,860	46,8%
Gross operating profit	38,832	13,77%	31,787	0,02%	7,045	22,2%
Net operating profit	25,313	8,98%	21,960	0,01%	3,353	15,3%
Pre-tax profit	22,693	8,05%	23,183	0,01%	(0,490)	-2,1%
Net profit for the period	15,550	5,51%	13,555	0,01%	1,995	14,7%
Cash Flow	29,069	10,31%	23,382	0,01%	5,687	24,3%

The first nine months performances are positive over the same period of 2005.:

- **Consolidated net sales:** amounted to **265.4** million Euros, up by **47.3%**
- **Gross operating profit** amounting to **38.8** million Euros and **Net operating profit**, amounting to **25.3** million Euros, indicate a remarkable increase over 2005, respectively **+ 22.2%** and **+ 15.3%**
- **Net profit:** after estimated taxes, totalled **15.5 million** Euros, up **14.7%** (+ 2.0 million Euros)

Revenues

Net sales reported a growth rate of **47.3%** going from 180.2 million Euros in the first nine months of 2005 up to 265.4 million Euros as of September 30th 2006 (+ 85.2 million Euros); this sales increase has been partially determined by the “stand-alone” increase of Panariagroup, equal to 9.1 million Euros (+ 5.0%) and for the balance by the consolidation of Novagres and Florida Tile. In the third quarter the growth has been weaker than in the first half of the year.

Main reference markets

Following the acquisition of Florida Tile and Novagres, the commercial strategy of Panariagroup 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 a more pronounced diversification on different geographical area and a superior focus on markets with bigger development opportunities for the high end and deluxe market segment.

The main reference for Panariagroup remains the **Italian market**, passed from a 42% to a 30% incidence on the revenues, exclusively as an effect of the acquisitions closed in the last year.

To confirm the importance of the Italian market, it has to be remarked how all the Italian Brands of Panariagroup realised increases in this area, with an average growth of 3.7%.

The US market, with the acquisition of Florida Tile, become essential in the commercial development strategy of Panariagroup, reaching an incidence of 25% on the total sales.

The growth of the **US market** (total sales passed from 17.6 to 67.9 million Euros) is mainly due to the acquisition of Florida Tile.

On the **European markets**, the increase is satisfactory, or considering the whole Group (+ 39.2%) either the Group with the same consolidation scope (+ 5.8%); 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)

<i>Nation</i>	<i>30/09/2006</i>	<i>30/09/2005</i>	<i>var.</i>	<i>%</i>
1 ITALY	82,610	78,000	4,610	5,9%
2 USA	67,931	17,562	50,369	286,8%
3 PORTUGAL	27,505	11,749	15,756	134,1%
4 FRANCE	22,350	14,372	7,978	55,5%
5 BELGIUM	13,816	12,310	1,506	12,2%
6 GERMANY	12,837	10,447	2,390	22,9%
7 HOLLAND	10,361	8,821	1,540	17,5%
8 SWITZERLAND	3,406	3,291	0,115	3,5%
9 UNITED KINGDOM	3,338	2,658	0,680	25,6%
10 GREECE	2,730	2,493	0,237	9,5%
OTHERS	23,929	21,880	2,049	9,4%
TOTAL	270,813	183,583	87,230	47,5%

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)

<i>Nazione</i>	<i>30/09/2006</i>	<i>30/09/2005</i>	<i>var.</i>	<i>%</i>
1 ITALY	80,913	78,000	2,913	3,7%
2 USA	18,048	17,562	0,486	2,8%
3 FRANCE	15,148	14,372	0,776	5,4%
4 PORTUGAL	13,286	11,749	1,537	13,1%
5 BELGIUM	13,123	12,310	0,813	6,6%
6 GERMANY	11,827	10,447	1,380	13,2%
7 HOLLAND	9,768	8,821	0,947	10,7%
8 SWITZERLAND	3,154	3,291	(0,137)	-4,2%
9 GREECE	2,511	2,493	0,018	0,7%
10 UNITED KINGDOM	2,645	2,658	(0,013)	-0,5%
OTHERS	22,296	21,880	0,416	1,9%
TOTAL	192,719	183,583	9,136	5,0%

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 15%) and to the acquisition of Novagres, the gross revenues on this area passed from 11.7 million euros to 27.5 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 significant 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 realizes a growth of **2%**: the areas with the most remarkable result are Italy and the North-America.
- The **Lea** brand reports a turnover increase of about **2 %**: the markets with the higher growth are the European (Germany, Belgium and Holland).
- The **Cotto d'Este** brand obtains a very significant growth of **10.6%**, driven by the good results in the Europe area (+13.9%) and in the Italian market (+7.3%).
- The **Fiordo** brand reported a small increase (+ **1%**) over the same period of the previous year: Italy and Germany are the two markets with the highest growth rate.
- The **Margres** brand maintains an high growth rate (+ **14,9%**); the success of the new lines of products introduced and a strategy focused on the development of the brand obtained positive feedback from all the markets.
- The recently acquired **Novagres**, consolidated only in the first nine months 2006, realized the same turnover of the previous year, that could be seen in a very positive way, considering that 2006 is the first year of management by Panariagroup.
- The **Florida Tile** brand realised from the acquisition date (26th February 2006) to the end of the third quarter 2006 gross revenues of 62.1 million dollars, all made in the US market.

The product types distributed by the Group 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.

The breakdown of sales by product class is:

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

<i>Tipologia</i>	<i>30/09/2006</i>	<i>30/09/2005</i>	<i>var.</i>
Porcelain gres	202,069	176,794	25,275
%	78,8%	95,8%	
White body wall tiles	44,080	6,055	38,025
%	13,2%	3,8%	
Single-fired floor tiles	12,144	0,734	11,410
%	4,0%	0,4%	
Non ceramic material	12,521	0,000	12,521
%	4,0%	0,0%	
Totale	270,813	183,583	87,230

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 obtained by the historical brands 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 and to the Novagres brand, specialized in the production of wall tiles with high aesthetic and technologic content. The expected synergies from the extension of the Novagres' wall tiles know-how on the Italian Brands, started with the production of some lines for Panaria and Lea brands presented at the Cersaie tradeshow at the end of September 2006.

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 fourth quarter we don't expect significant changes in the product structure; the most important programs 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 243.2 million Euros, increasing from the same period of the previous year of about 82.8 million Euros; this variation is mainly due to 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 32% over the same period of the previous year. The negative impact on the cumulated Profit and Loss account, determined by the price effect, amounted in 4.3 million Euros.

Operating results

The **Gross operating profit** totalled **38.8 million Euros**, showing a significant increase of 7.0 million Euros compared with the September 2005 (+ **22.2%**).

The decrease in the incidence of Gross operating profit is mainly due to dilutive effect of the inclusion in the consolidation scope of Florida Tile, that, as expected, obtained an important turnover and a negative Gross operating profit, and, partially, to the lower growth rate of sales obtained in the last quarter by the other brands of the group.

The decrease in profitability of the newly acquired Florida Tile in comparison with the previous quarter is mainly due to the slowdown in the production of the Shannon plant and to the begin of the restructuring undertaken in the Lawrenceburg plant.

The total amount of Depreciation and amortization expenses and provisions is, in percentage, on the same level of the first nine months of 2006.

The **Net operating profit** reports an increase of 3.4 million Euros (+ **15.3%**)

The Financial incomes and expenses show a negative balance of 2.6 million Euros, while in the same period of the previous year reported a positive balance of 1.2 million Euros.

The change from a positive to a negative result is fully justified by:

- the trend of Euro/Dollar exchange rate that generated significant gains in the first nine months of 2005, equal to 2.0 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 2.5 millions Euro: the tax rate (incidence of the income taxes on the pre-tax result) passed from 41.5 % to 31.5 %.

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 of about 1.8 million Euros, reported in the caption "Estimated Income Taxes"

Net profit amounts to 15.5 million Euros, with an increase of **14.7 %** (+ 2.0 million Euros) compared with the September 2005 figures.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	30/9/2006	30/6/2006	31/12/2005
Net Working Capital	132,924	134,106	107,574
Fixed assets	102,023	100,857	95,480
Assets / Liabilities due after year	(19,704)	(19,253)	(19,224)
NET CAPITAL EMPLOYED	215,243	215,710	183,830
Net Financial Position	65,958	68,263	40,653
Shareholders' equity	149,285	147,447	143,177
TOTAL SOURCES OF FUNDS	215,243	215,710	183,830

Net working capital

The Net Working Capital increase, equal to 25.3 million Euros, is the result of the consolidation of Florida Tile and of the increase of the activity of Panariagroup. It shows the same level of June 2006.

Investments

The level of assets increased from the beginning of the year of about 6.5 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 11.6 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 12 million Euros.

Net financial position

Financial cash flow

(thousands euro)

30/9/2006

Net financial position - beginning	(40,653)
Net Profit	15,550
D & A	11,997
Net Variation Provisions	0,768
Internal operating Cash flow	28,315
Change in net working capital	(14,178)
Dividend distribution	(8,608)
Net Investments	(11,707)
Florida Tile acquisition effect	(18,290)
Other movements	(0,837)
Net financial position - final	(65,958)

The Net Financial Position reports a negative balance of 66.0 million Euros, with a negative change from the beginning of the year of about 25.3 million Euros.

The negative variation is mainly due to the investments related to the Florida Tile acquisition (18.3 Million Euros) and to the dividend distribution, effected in the Second Quarter 2006 (8.6 million Euros).

5. FLORIDA TILE UPDATE

In line with our expectations, recently started the implementation of the industrial and commercial reorganization program of Florida Tile.

In particular, the defined target for the new industrial structure are confirmed: the agreements for the supply of the equipments of the new line of porcelain gres tile in Lawrenceburg plant have already been executed and the assembling activities have already been planned.

Total investment is forecasted in 11 million Dollars; the necessary construction works are in progress and the installation of the equipment is set for January 2007, with a foreseen start up of the new production line before June 2007.

The state of the art technology of the new production line will allow Lawrenceburg plant to double its production capacity.

This higher degree of efficiency, together with several actions aimed at the rationalization of production departments and raw materials supplying, will enable a significant reduction in the average production costs.

The insertion of a new production line for the porcelain gres will be a milestone for the development of Florida Tile: market trends confirm the clear reduction of the red clay products in favour of more valuable gres tile.

This clear trend, and an higher degree of confidence about the start up of the new production line, has driven the decision to anticipate the conversion of several important product lines to porcelain gres tile, characterized by higher average selling prices and better profitability.

The most important decisions assumed accordingly to this conversion are:

- **early shut down of Shannon plant** (focused on the production of red clay products) in January 2007 (the original estimate was summer 2007); the plant is currently managed under a lease agreement that will expire at the end of 2007;
- **transfer to Panariagroup's Italian plants of the products lines converted in porcelain gres** that will be produced in Lawrenceburg, once the new line will be available; this activity has already been started during the third quarter 2006.

This important reorganization in a short period of time could have temporary inefficiencies arising from the restructuring of Lawrenceburg plant (that will temporarily reduce its production capacity in correspondence of the restructuring activities), from the shut down of the Shannon plant and from the products lines coming from the Italian factories, characterized by a production cost higher than the average cost forecasted in the new line in the US, due to the transportation costs and duties.

However, we believe that the acceleration of these processes and the faster definition of a new efficient industrial structure, represents a solid platform to grant a gradual improving in Florida Tile's profitability.

3. OPERATIONAL OUTLOOK FOR THE GROUP

The management will be focused in the next few months in the implementation of the restructuring process of Florida Tile, that is the strategic priority of Panariagroup, and in the completion of the integration process of Novagres.

4. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.