



**Panariagroup Industrie Ceramiche S.p.A.**

**QUARTERLY REPORT  
AS OF DECEMBER 31<sup>st</sup>, 2006**



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## 1. GROUP STRUCTURE

As of December 31<sup>st</sup> 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.

**Gres Panaria Portugal S.A.**, based in Chousa Nova, Ilhavo, Portugal, with a paid-in share capital of Euro 16,500,000.00, is fully owned by Panariagroup Industrie Ceramiche. Gres Panaria Portugal is specialized in white body wall tiles and in porcelain grès products and operates with 2 different brands, Margres and Novagres, both focused on the main European markets.

**Panariagroup USA Inc.**, based in Delaware, USA, with a paid-in capital of USD 8,500,000, is fully owned by Panariagroup Industrie Ceramiche S.p.A. The company is the holding for the US market and controls the participations in Florida Tile Inc. and Lea North America LLC.

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

**Lea North America LLC**, based in Delaware, USA, with a paid-in share capital of USD 20,000, is wholly owned by Panariagroup.

The company operates in the marketing and distribution of the Lea brand products in North America.

The structure of the Group has changed in the last quarter of 2006, due to the following transactions:

- Merger between **Maronagres Commercio e Industria S.A.** and **Novagres Industria de Ceramica S.A.** in a company re-named **Gres Panaria Portugal S.A.**: the aim of this merger is the maximization of the synergies between the two portuguese brands already introduced during 2006.
- The change of the name of the sub-holding "**Florida Tile U.S. Participation Vehicle**" in "**Panariagroup USA Inc.**" and the transfer of the participation in Lea North America from Panariagroup Industrie Ceramiche to Panariagroup USA. The scope of this deal is to concentrate the activities of our American brands in a single entity under the US Subholding.

The above mentioned operations have not determined impact on the consolidated economic and financial situation of Panariagroup.

## 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 <sup>(*)</sup>	Director	Parma, 20/10/1964
Alessandro Iori <sup>(*)</sup>	Director	Reggio Emilia, 15/6/1943
Paolo Onofri <sup>(*)</sup>	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. CONSOLIDATED P&L AND BALANCE SHEET

#### 3.1 Profit and loss account - Cumulated as of December 31<sup>st</sup> 2006 and 2005

(in € / 000)

<b>CUMULATED</b>	<b>31/12/2006</b>	<b>%</b>	<b>31/12/2005</b>	<b>%</b>	<b>var.</b>
<b>Revenues from sales and services</b>	<b>351,559</b>	<b>94,01%</b>	<b>241,725</b>	<b>92,42%</b>	<b>109,834</b>
Changes in inventories of finished products	15,108	4,04%	17,013	6,50%	(1,905)
Other revenues	7,276	1,95%	2,815	1,08%	4,461
<b>Value of Production</b>	<b>373,943</b>	<b>100,00%</b>	<b>261,558</b>	<b>100,00%</b>	<b>112,385</b>
Raw, ancillary and consumable materials	(110,716)	-29,61%	(68,599)	-26,23%	(42,117)
Services, leases and rentals	(139,712)	-37,36%	(102,789)	-39,30%	(36,923)
Personnel costs	(69,385)	-18,55%	(43,956)	-16,81%	(25,429)
Changes in inventories of raw materials	0,528	0,14%	0,028	0,01%	0,500
Other operating expenses	(4,776)	-1,28%	(2,570)	-0,98%	(2,206)
<b>Cost of production</b>	<b>(324,061)</b>	<b>-86,66%</b>	<b>(217,886)</b>	<b>-83,30%</b>	<b>(106,175)</b>
<b>Gross operating profit</b>	<b>49,882</b>	<b>13,34%</b>	<b>43,672</b>	<b>16,70%</b>	<b>6,210</b>
D&A expenses	(16,381)	-4,38%	(12,067)	-4,61%	(4,314)
Provisions and impairments	(1,848)	-0,49%	(2,085)	-0,80%	0,237
<b>Net operating profit</b>	<b>31,653</b>	<b>8,46%</b>	<b>29,520</b>	<b>11,29%</b>	<b>2,133</b>
Financial income and expense	(3,757)	-1,00%	0,993	0,38%	(4,750)
<b>Pre-tax profit</b>	<b>27,896</b>	<b>7,46%</b>	<b>30,513</b>	<b>11,67%</b>	<b>(2,617)</b>
Income taxes	(9,795)	-2,62%	(12,466)	-4,77%	2,671
<b>Net profit for the period</b>	<b>18,101</b>	<b>4,84%</b>	<b>18,047</b>	<b>6,90%</b>	<b>0,054</b>
<b>Cash Flow</b>	<b>36,330</b>	<b>9,72%</b>	<b>32,199</b>	<b>12,31%</b>	<b>4,131</b>

(\*) The consolidation scope as of December 31<sup>st</sup> 2005 does not include Florida Tile, acquired on February 26<sup>th</sup> 2006, and includes only one month of Novagres, acquired on November 30<sup>th</sup> 2005.

### 3.2 Profit and loss account – Fourth Quarter 2006 and 2005

(in € / 000)

QUARTER	4th Quarter 2006	%	4th Quarter 2005	%	var.
<b>Revenues from sales and services</b>	<b>86,155</b>	<b>93,73%</b>	<b>61,490</b>	<b>88,61%</b>	<b>24,665</b>
Changes in inventories of finished products	3,422	3,72%	6,128	8,83%	(2,706)
Other revenues	2,340	2,55%	1,774	2,56%	0,566
<b>Value of Production</b>	<b>91,917</b>	<b>100,00%</b>	<b>69,392</b>	<b>100,00%</b>	<b>22,525</b>
Raw, ancillary and consumable materials	(26,769)	-29,12%	(17,095)	-24,64%	(9,674)
Services, leases and rentals	(34,313)	-37,33%	(28,326)	-40,82%	(5,987)
Personnel costs	(17,978)	-19,56%	(11,527)	-16,61%	(6,451)
Changes in inventories of raw materials	0,132	0,14%	(0,250)	-0,36%	0,382
Other operating expenses	(1,939)	-2,11%	(0,309)	-0,45%	(1,630)
<b>Cost of production</b>	<b>(80,867)</b>	<b>-87,98%</b>	<b>(57,507)</b>	<b>-82,87%</b>	<b>(23,360)</b>
<b>Gross operating profit</b>	<b>11,050</b>	<b>12,02%</b>	<b>11,885</b>	<b>17,13%</b>	<b>(0,835)</b>
D&A expenses	(4,384)	-4,77%	(3,454)	-4,98%	(0,930)
Provisions and impairments	(0,326)	-0,35%	(0,871)	-1,26%	0,545
<b>Net operating profit</b>	<b>6,340</b>	<b>6,90%</b>	<b>7,560</b>	<b>10,89%</b>	<b>(1,220)</b>
Financial income and expense	(1,137)	-1,24%	(0,230)	-0,33%	(0,907)
<b>Pre-tax profit</b>	<b>5,203</b>	<b>5,66%</b>	<b>7,330</b>	<b>10,56%</b>	<b>(2,127)</b>
Income taxes	(2,652)	-2,89%	(2,838)	-4,09%	0,186
<b>Net profit for the period</b>	<b>2,551</b>	<b>2,78%</b>	<b>4,492</b>	<b>6,47%</b>	<b>(1,941)</b>
<b>Cash Flow</b>	<b>7,261</b>	<b>7,90%</b>	<b>8,817</b>	<b>12,71%</b>	<b>(1,556)</b>

(\*) The fourth quarter 2005 does not include Florida Tile, acquired on February 26<sup>th</sup> 2006, and includes only one month of Novagres, acquired on November 30<sup>th</sup> 2005.

### 3.3 Profit and loss account as of December 31<sup>st</sup> 2006 and by six month period (in € / 000)

<b>PROFIT AND LOSS ACCOUNT</b>	<b>Year</b>	<b>%</b>	<b>1st Half 06</b>	<b>%</b>	<b>2nd Half 06</b>	<b>%</b>
<b>Revenues from sales and services</b>	<b>351,559</b>	<b>94,0%</b>	<b>182,350</b>	<b>93,8%</b>	<b>169,209</b>	<b>94,3%</b>
Changes in inventories of finished products	15,108	4,0%	8,960	4,6%	6,148	3,4%
Other revenues	7,276	1,9%	3,167	1,6%	4,109	2,3%
<b>Value of Production</b>	<b>373,943</b>	<b>100,0%</b>	<b>194,477</b>	<b>100,0%</b>	<b>179,466</b>	<b>100,0%</b>
Raw, ancillary and consumable materials	(110,716)	-29,6%	(56,548)	-29,1%	(54,168)	-30,2%
Services, leases and rentals	(139,712)	-37,4%	(71,923)	-37,0%	(67,789)	-37,8%
Personnel costs	(69,385)	-18,6%	(33,949)	-17,5%	(35,436)	-19,7%
Changes in inventories of raw materials	0,528	0,1%	0,005	0,0%	0,523	0,3%
Other operating expenses	(4,776)	-1,3%	(2,291)	-1,2%	(2,485)	-1,4%
<b>Cost of production</b>	<b>(324,061)</b>	<b>-86,7%</b>	<b>(164,706)</b>	<b>-84,7%</b>	<b>(159,355)</b>	<b>-88,8%</b>
<b>Gross operating profit</b>	<b>49,882</b>	<b>13,3%</b>	<b>29,771</b>	<b>15,3%</b>	<b>20,111</b>	<b>11,2%</b>
D&A expenses	(16,381)	-4,4%	(7,895)	-4,1%	(8,486)	-4,7%
Provisions and impairments	(1,848)	-0,5%	(1,061)	-0,5%	(0,787)	-0,4%
<b>Net operating profit</b>	<b>31,653</b>	<b>8,5%</b>	<b>20,815</b>	<b>10,7%</b>	<b>10,838</b>	<b>6,0%</b>
Financial income and expense	(3,757)	-1,0%	(1,465)	-0,8%	(2,292)	-1,3%
<b>Pre-tax profit</b>	<b>27,896</b>	<b>7,5%</b>	<b>19,350</b>	<b>9,9%</b>	<b>8,546</b>	<b>4,8%</b>
Income taxes	(9,795)	-2,6%	(5,854)	-3,0%	(3,941)	-2,2%
<b>Net profit for the period</b>	<b>18,101</b>	<b>4,8%</b>	<b>13,496</b>	<b>6,9%</b>	<b>4,605</b>	<b>2,6%</b>
<b>Cash Flow</b>	<b>36,330</b>	<b>9,7%</b>	<b>22,452</b>	<b>11,5%</b>	<b>13,878</b>	<b>7,7%</b>

(\*) The first half 2006 includes only 4 months of Florida Tile, acquired on February 26<sup>th</sup> 2006,



### 3.4 Reclassified balance sheet

(in € / 000)

	30/6/2006	31/3/2006	31/12/2005
Inventories	132,392	128,970	101,364
Accounts Receivable	100,343	121,021	94,177
Other current assets	6,105	3,739	2,817
<b>CURRENT ASSETS</b>	<b>238,840</b>	<b>253,730</b>	<b>198,358</b>
Accounts Payables	(70,618)	(78,830)	(61,323)
Other current liabilities	(35,512)	(40,794)	(29,461)
<b>CURRENT LIABILITIES</b>	<b>(106,130)</b>	<b>(119,624)</b>	<b>(90,784)</b>
<b>NET WORKING CAPITAL</b>	<b>132,710</b>	<b>134,106</b>	<b>107,574</b>
Goodwill	12,089	12,089	12,089
Intangible assets	2,639	2,543	0,551
Tangible assets	88,833	86,221	82,836
Equity Investments and other financial fixed assets	0,005	0,004	0,004
<b>FIXED ASSETS</b>	<b>103,566</b>	<b>100,857</b>	<b>95,480</b>
Receivables due after the following year	2,505	2,510	0,207
Provisions for termination benefits	(7,248)	(7,223)	(6,835)
Provisions for risks and charge and deferred taxes	(8,002)	(9,086)	(10,239)
Other payables due after the year	(4,994)	(5,454)	(2,357)
<b>ASSETS AND LIABILITIES DUE AFTER THE YEAR</b>	<b>(17,739)</b>	<b>(19,253)</b>	<b>(19,224)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>218,537</b>	<b>215,710</b>	<b>183,830</b>

Short term financial assets	(9,031)	(7,015)	(4,221)
Short term financial debt	51,952	51,332	40,503
<b>NET SHORT TERM FINANCIAL DEBT</b>	<b>42,921</b>	<b>44,317</b>	<b>36,282</b>
Mid-long term financial debt	24,003	23,946	4,371
<b>NET FINANCIAL POSITION</b>	<b>66,924</b>	<b>68,263</b>	<b>40,653</b>
Group Shareholders' Equity	151,613	147,447	143,177
<b>SHAREHOLDERS' EQUITY</b>	<b>151,613</b>	<b>147,447</b>	<b>143,177</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>218,537</b>	<b>215,710</b>	<b>183,830</b>

### 3.5 Net financial position

(in € / 000)

	31/12/2006	30/09/2006	31/12/2005
Securities	-	-	-
Cash and cash equivalents	(9,031)	(7,912)	(4,221)
<b>Short term financial assets</b>	<b>(9,031)</b>	<b>(7,912)</b>	<b>(4,221)</b>
Due to banks	50,586	48,541	39,249
Financial payables to holding companies	-	-	-
Due to other lenders	1,366	1,284	1,254
<b>Short term financial debt</b>	<b>51,952</b>	<b>49,825</b>	<b>40,503</b>
Due to banks	22,118	22,112	1,818
Due to other lenders	1,885	1,933	2,553
Due to bondholders	-	-	-
<b>Mid-long term financial debt</b>	<b>24,003</b>	<b>24,045</b>	<b>4,371</b>
<b>Net Financial Position</b>	<b>66,924</b>	<b>65,958</b>	<b>40,653</b>

## **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 24<sup>th</sup>, 1998 governing issuers (Consob Resolutions no. 11971 dated May 14<sup>th</sup>, 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 used for the preparation of this quarterly report do not differ from those utilized from the introduction of IFRS

The accounting figures do not contain any estimates other than those normally used when preparing a set of annual accounts.

In connection with the US companies of the Group, no significant differences has been found between local accounting principle (US GAAP) and the accounting principle used for the consolidated financial report (IFRS).

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;
- **Gres Panaria Portugal S.A.**, 100% owned;
- **Panariagroup USA Inc.**, 100% owned;
- **Florida Tile Inc.**, 100% owned.
- **Lea North America LLC**, 100% owned;

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

The consolidation scope is changed from December 31<sup>st</sup> 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**”, an US Holding fully owned by Panariagroup Industrie Ceramiche S.p.A., later re-named “**Panariagroup USA Inc.**”
- Incorporation of “**Florida Tile Inc.**”, operating company fully owned by Panariagroup USA Inc.
- 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 30<sup>th</sup>, 2005). Therefore 2005 data include this company only for 1 month, while are fully included in 2006 data.

Finally, as previously said, in the last quarter of 2006 has been completed the rationalization of the Group, thanks to the merger between Maronagres and Novagres in a company re-named Gres Panaria Portugal S.A., and the reorganization of the American business unit, with the transfer of Lea North America under the control of Panariagroup USA Inc.

In the subsequent paragraphs, where considered significant, will be highlighted the most important impacts coming from the above mentioned changes in the consolidation scope.

#### **4.3 Executive report on operations**

##### **Profit and loss analysis**

##### ***Profit and Loss – Figures as of December 31<sup>st</sup> 2006***

***(in € / 000 )***

	<b>31/12/2006</b>	<b>%</b>	<b>31/12/2005</b>	<b>%</b>	<b>var. €</b>
<b>Revenues from sales and services</b>	<b>351,559</b>	<b>0,09%</b>	<b>241,725</b>	<b>0,09%</b>	<b>109,834</b>
<b>Value of Production</b>	<b>373,943</b>	<b>100,00%</b>	<b>261,558</b>	<b>100,00%</b>	<b>112,385</b>
<b>Gross operating profit</b>	<b>49,882</b>	<b>0,01%</b>	<b>43,672</b>	<b>0,02%</b>	<b>6,210</b>
<b>Net operating profit</b>	<b>31,653</b>	<b>0,01%</b>	<b>29,520</b>	<b>0,01%</b>	<b>2,133</b>
<b>Pre-tax profit</b>	<b>27,896</b>	<b>0,01%</b>	<b>30,513</b>	<b>0,01%</b>	<b>(2,617)</b>
<b>Net profit for the period</b>	<b>18,101</b>	<b>0,00%</b>	<b>18,047</b>	<b>0,01%</b>	<b>0,054</b>

The twelve months performances are positive:

- **Consolidated net sales:** amounted to **351,6** million Euros, up by **45,4%** (**+4,0** with the same consolidation scope).
- **Gross operating profit** amounting to **49,9** million Euros and **Net operating profit**, amounting to **31,7** million Euros, indicate an increase over 2005, respectively **+ 14,2%** and **+ 7,2%**
- **Consolidated net profit is 18,1 million Euros**, in line with the previous year.

2006 results include the impact of the consolidation of Florida Tile, that, in line with our expectations, obtained negative results mainly due to the important restructuring process under way, as anticipated and described in the previous Quarterly Report.

The dilution in consolidated profit margins coming from Florida Tile's results represents for the Group a strategic investment for the mid term development plan. The positive effects related to this investment are expected to be significant from the year 2008.

It has to be noted that, net of this effect, and despite the strong increase of energy costs, Panariagroup obtained excellent results and in particular:

- **Value of Production** of **297,5** million Euros
- **Gross Operating Profit** of **50,9** million Euros (**17,1%** of the Value of Production)

- **Net Operating Margin** of **34,1** million Euros (**11,5%** of the Value of Production)
- **Net Profit** of **20.9** million Euros (**7,0%** of the Value of Production)

The restructuring process currently in place, foresees in the next few months fundamental strategic and organizational steps, that will determine in the last months of 2007 the first important positive effects on the financial performances of the US company:

- definitive shut down of the Shannon plant, that realizes red body floor tiles, during the month of **February 2007**;
- start up of a new, state of the art, porcelain gres production line in the Lawrenceburg plant, in the month of **June 2007**;
- launch of the new IT system, in **March 2007**;
- gradual exit of the actual top management of the Company, with the insertion of a new management team: this process will start at the end of February 2007 and will end before **May 2007**.

## **Revenues**

**Net sales** reported a growth rate of **45,4%** going from 241,7 million Euros of 2005 up to 351,6 million Euros as of December 31<sup>st</sup> 2006 (+ 109,9 million Euros); this sales increase has been partially determined by the “stand-alone” increase of Panariagroup, equal to 8.4 million Euros (+ 4.0%) and for the balance by the consolidation of Novagres and Florida Tile.

## **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 revenues, exclusively as an effect of the acquisitions realized.

In this important market, Panariagroup realized a growth of 3,4%.

The **US market** grew from 24,2 to 90,7 million Euros, exclusively thanks to the 10 months consolidation of Florida Tile.

The US market, with the acquisition of Florida Tile, reached an incidence of 26% on total sales.

On the **European markets**, the increase is satisfactory, or considering the whole Group (+ 40,9%) either the Group with the same consolidation scope (+ 7,3%); this result comes from the good performances realized on all the main Countries such as Portugal, France, Germany, Belgium and Holland.

The incidence of the European markets on the consolidated turnover is around 40%.

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>31/12/2006</i>	<i>31/12/2005</i>	<i>var.</i>	<i>%</i>
<b>1</b> ITALY	107,099	103,598	3,501	3,4%
<b>2</b> USA	90,718	24,203	66,515	274,8%
<b>3</b> PORTUGAL	36,906	17,128	19,778	115,5%
<b>4</b> FRANCE	29,046	18,921	10,125	53,5%
<b>5</b> BELGIUM	18,321	16,250	2,071	12,7%
<b>6</b> GERMANY	18,123	14,070	4,053	28,8%
<b>7</b> HOLLAND	14,047	11,860	2,187	18,4%
<b>8</b> UNITED KINGDOM	4,617	3,741	0,267	6,4%
<b>9</b> SWITZERLAND	4,465	4,198	0,876	23,4%
<b>10</b> AUSTRALIA	3,372	2,905	0,467	16,1%
OTHERS	32,557	30,353	2,204	7,3%
<b>TOTAL</b>	<b>359,271</b>	<b>247,227</b>	<b>112,044</b>	<b>45,3%</b>

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 the internal market (about 15%) and to the acquisition of Novagres, the gross revenues on this area passed from 17,1 million Euros to 36,9 million Euros.

With Margres and Novagres brands, Panariagroup is the first player on the Portuguese ceramic industry.

Very good results were obtained on the main markets of Western Europe: in this area have to be noted the significant recover of the German market, the good results obtained in France due to the important presence of Novagres in this area and the outstanding growth realised in Belgium and Holland.



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

- The **Panaria** brand is substantially flat on all the reference markets.
- Even the **Lea** brand is confirmed on the same levels of the previous year, with interesting results in Western Europe markets.
- The **Cotto d'Este** brand closes the year with a very significant growth higher than **10%**, driven by the good results realized in all the markets.
- The **Fiordo** brand reports a good increase (+ **6%**) in comparison with the previous year, thanks to the impressive performance of the last quarter.
- The **Margres** brand obtains an high growth rate (+ **18,5%**) with important successes on all the European markets.
- The **Novagres** brand closes the first year of Panariagroup control with sales slightly higher than the previous year.
- The **Florida Tile** brand realised from the acquisition date (26<sup>th</sup> February 2006) to the end of December 2006 a gross revenues of 84,7 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>31/12/2006</i>	<i>31/12/2005</i>	<i>var.</i>
Porcelain gres	274,069	236,893	37,176
%	<b>76,3%</b>	<b>95,8%</b>	
White body wall tiles	51,684	9,469	42,215
%	<b>14,4%</b>	<b>3,8%</b>	
Single-fired floor tiles	16,534	0,865	15,669
%	<b>4,6%</b>	<b>0,3%</b>	
Non ceramic material	16,984	0,000	16,984
%	<b>4,7%</b>	<b>0,0%</b>	
<b>Totale</b>	<b>359,271</b>	<b>247,227</b>	<b>112,044</b>

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 year 2007 the main change in the sales structure is related to the gradual conversion of the lines of product of Florida Tile to porcelain gres.

This conversion, closely related to the productive investments that Florida Tile is realizing, is aimed to transfer an important part of the turnover of the US brand to a market segment that is characterized by better margins and by higher growth rate.

## Operating results

The **Gross operating profit** totalled **49,9 million Euros**, showing an increase of 6,2 million Euros compared with 2005 (+ **14,2%**).

The decrease in the incidence of Gross operating profit is mainly due to the dilutive effect of the inclusion in the consolidation scope of Florida Tile that obtained an important turnover and a negative Gross operating profit.

These performances reflect the temporary inefficiencies already described in the Third Quarter Report and related to the important restructuring process of the US Company.

The operating profit has been negatively affected even by the increase in energy costs (electricity and natural gas) whose unit average cost raised up of about 27% over the previous year. The negative impact on the cumulated Profit and Loss account, determined by the price effect, amounted in 5,1 million Euros.

The **Net operating profit**, that equals to 31,7 million Euros, reports an increase of 2,1 million Euros (+ **7,2%**)

The Financial incomes and expenses show a negative balance of 3,7 million Euros, while in the previous year reported a positive balance of 1,0 million Euros.

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

- 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.
- the trend of Euro/Dollar exchange rate that generated significant gains in 2005, equal to 2,1 million Euros;

Estimated taxes decreased of about 2,7 million Euros. The decrease of the taxation is mainly due to the utilization by Panariagroup of the fiscal advantage of "realignment of values" of the amortisations, allowed by Italian "Legge Finanziaria" 2005 (positive effect of 1,8 million Euros) and top the recognition of a tax asset related to the losses carried forward in Gres Panaria Portugal (positive effect of around 0,7 million Euros).

**Net profit** amounts to 18,1 million Euros, in line with the previous year.

## **Financial and balance sheet highlights**

### ***Balance Sheet***

***(in € / 000)***

	<b>31/12/2006</b>	<b>30/9/2006</b>	<b>31/12/2005</b>
<b>Net Working Capital</b>	<b>132,710</b>	<b>132,924</b>	<b>107,574</b>
<b>Fixed assets</b>	<b>103,566</b>	<b>102,023</b>	<b>95,480</b>
<b>Assets / Liabilities due after year</b>	<b>(17,739)</b>	<b>(19,704)</b>	<b>(19,224)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>218,537</b>	<b>215,243</b>	<b>183,830</b>
<b>Net Financial Position</b>	<b>66,924</b>	<b>65,958</b>	<b>40,653</b>
<b>Shareholders' equity</b>	<b>151,613</b>	<b>149,285</b>	<b>143,177</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>218,537</b>	<b>215,243</b>	<b>183,830</b>

### **Net working capital**

The Net Working Capital increase, equal to 25,1 million Euros, is mainly due to the consolidation of Florida Tile. It shows the same level of September 2006.

### **Investments**

The level of assets increased from the beginning of the year of about 8,1 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 million Euros;
- Fixed assets investments totalled 17,6 million Euros, mainly addressed to the improvement of the efficiency of all the Italian and Portuguese plants and to the start of the works related to the new plant in Kentucky of Florida Tile;
- The amortization of the period of 16,3 million Euros.

## Net financial position

### Financial cash flow

(thousands euro)

31/12/2006

<b>Net financial position - beginning</b>	<b>(40,653)</b>
Net Profit	18,101
D & A	16,381
Net Variation Provisions	(1,421)
<b>Internal operating Cash flow</b>	<b>33,061</b>
Change in net working capital	(13,744)
Dividend distribution	(8,608)
Net Investments	(17,633)
Florida Tile acquisition effect	(18,290)
Other movements	(1,057)
<b>Net financial position - final</b>	<b>(66,924)</b>

The Net Financial Position reports a negative balance of 66,9 million Euros, with a negative change from the beginning of the year of about 26,3 million Euros.

The negative variation is 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. OPERATIONAL OUTLOOK FOR THE GROUP

For the year 2007 the Italian and the Portuguese brands are expected to deliver good growth in revenues, with the same outstanding profit margins.

It is fully confirmed the confidence on the turnaround program of Florida Tile, currently our most important strategic investment.

Florida Tile is expected to have an impressive growth potential, that will grant to the Group remarkable results in the next years.

## 6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.