Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT
AS OF JUNE 30th, 2007

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

As of June 30th 2007, 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 34,500,000.00, 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 15,000,000.00 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 USA Inc.
The company operates in the marketing and distribution of the Lea brand products in North America.

The structure of the Group has not changed in the first Half of 2007. Therefore it has to be noted that the first Half 2006 data included only partially Panariagroup USA Inc. and Florida Tile Inc., incorporated at the end of February 2006, while the figures as of June 30th 2007 include the results of these companies for the whole period.

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

(*) Indipendent 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 Consolidated Profit and Loss account

Cumulated as of June 30th 2007 and by quarter

(in € / 000)

PROFIT AND LOSS ACCOUNT	1st Half 07	%	1st Quarter 07	%	2nd Quarter 07	%
Revenues from sales and services	**190,405**	97,3%	**92,646**	98,4%	**97,759**	96,3%
Changes in inventories of finished products	2,387	1,2%	0,484	0,5%	1,903	1,9%
Other revenues	2,826	1,4%	1,020	1,1%	1,806	1,8%
Value of Production	**195,618**	100,0%	**94,150**	100,0%	**101,468**	100,0%
Raw, ancillary and consumable materials	(54,582)	-27,9%	(25,366)	-26,9%	(29,216)	-28,8%
Services, leases and rentals	(74,496)	-38,1%	(36,236)	-38,5%	(38,260)	-37,7%
Personnel costs	(36,265)	-18,5%	(18,225)	-19,4%	(18,040)	-17,8%
Changes in inventories of raw materials	(0,435)	-0,2%	(0,259)	-0,3%	(0,176)	-0,2%
Other operating expenses	(2,375)	-1,2%	(1,053)	-1,1%	(1,322)	-1,3%
Cost of production	**(168,153)**	-86,0%	**(81,139)**	-86,2%	**(87,014)**	-85,8%
Gross operating profit	**27,465**	14,0%	**13,011**	13,8%	**14,454**	14,2%
D&A expenses	(8,019)	-4,1%	(3,899)	-4,1%	(4,120)	-4,1%
Provisions and impairments	(0,961)	-0,5%	(0,395)	-0,4%	(0,566)	-0,6%
Net operating profit	**18,485**	9,4%	**8,717**	9,3%	**9,768**	9,6%
Financial income and expense	(2,176)	-1,1%	(1,127)	-1,2%	(1,049)	-1,0%
Pre-tax profit	**16,309**	8,3%	**7,590**	8,1%	**8,719**	8,6%
Income taxes	(6,533)	-3,3%	(3,442)	-3,7%	(3,091)	-3,0%
Net profit for the period	**9,776**	5,0%	**4,148**	4,4%	**5,628**	5,5%

3.2 Consolidated Profit and Loss account

Cumulated as of June 30th 2007 and 2006 (*)

(in € / 000)

CUMULATED	30/6/2007	%	30/6/2006	%	var.
Revenues from sales and services	**190,405**	**97,34%**	**182,350**	**93,76%**	**8,055**
Changes in inventories of finished products	2,387	1,22%	8,960	4,61%	(6,573)
Other revenues	2,826	1,44%	3,167	1,63%	(0,341)
Value of Production	**195,618**	**100,00%**	**194,477**	**100,00%**	**1,141**
Raw, ancillary and consumable materials	(54,582)	-27,90%	(56,548)	-29,08%	1,966
Services, leases and rentals	(74,496)	-38,08%	(71,923)	-36,98%	(2,573)
Personnel costs	(36,265)	-18,54%	(33,949)	-17,46%	(2,316)
Changes in inventories of raw materials	(0,435)	-0,22%	0,005	0,00%	(0,440)
Other operating expenses	(2,375)	-1,21%	(2,291)	-1,18%	(0,084)
Cost of production	**(168,153)**	**-85,96%**	**(164,706)**	**-84,69%**	**(3,447)**
Gross operating profit	**27,465**	**14,04%**	**29,771**	**15,31%**	**(2,306)**
D&A expenses	(8,019)	-4,10%	(7,895)	-4,06%	(0,124)
Provisions and impairments	(0,961)	-0,49%	(1,061)	-0,55%	0,100
Net operating profit	**18,485**	**9,45%**	**20,815**	**10,70%**	**(2,330)**
Financial income and expense	(2,176)	-1,11%	(1,465)	-0,75%	(0,711)
Pre-tax profit	**16,309**	**8,34%**	**19,350**	**9,95%**	**(3,041)**
Income taxes	(6,533)	-3,34%	(5,854)	-3,01%	(0,679)
Net profit for the period	**9,776**	**5,00%**	**13,496**	**6,94%**	**(3,720)**
Cash Flow	**18,756**	**9,59%**	**22,452**	**11,54%**	**(3,696)**

(*) *The consolidation scope at June 30, 2006 includes Florida Tile starting from the acquisition date (26th February 2006)*

3.3 Consolidated Profit and Loss account

Second Quarter 2007 and 2006

(in € / 000)

QUARTER	2nd Quarter 2007	%	2nd Quarter 2006	%	var.
Revenues from sales and services	**97,759**	**96,34%**	**98,224**	**93,16%**	**(0,465)**
Changes in inventories of finished products	1,903	1,88%	4,938	4,68%	(3,035)
Other revenues	1,806	1,78%	2,277	2,16%	(0,471)
Value of Production	**101,468**	**100,00%**	**105,439**	**100,00%**	**(3,971)**
Raw, ancillary and consumable materials	(29,216)	-28,79%	(30,805)	-29,22%	1,589
Services, leases and rentals	(38,260)	-37,71%	(38,364)	-36,39%	0,104
Personnel costs	(18,040)	-17,78%	(18,477)	-17,52%	0,437
Changes in inventories of raw materials	(0,176)	-0,17%	(0,344)	-0,33%	0,168
Other operating expenses	(1,322)	-1,30%	(1,407)	-1,33%	0,085
Cost of production	**(87,014)**	**-85,76%**	**(89,397)**	**-84,79%**	**2,383**
Gross operating profit	**14,454**	**14,24%**	**16,042**	**15,21%**	**(1,588)**
D&A expenses	(4,120)	-4,06%	(4,102)	-3,89%	(0,018)
Provisions and impairments	(0,566)	-0,56%	(0,712)	-0,68%	0,146
Net operating profit	**9,768**	**9,63%**	**11,228**	**10,65%**	**(1,460)**
Financial income and expense	(1,049)	-1,03%	(0,704)	-0,67%	(0,345)
Pre-tax profit	**8,719**	**8,59%**	**10,524**	**9,98%**	**(1,805)**
Income taxes	(3,091)	-3,05%	(2,264)	-2,15%	(0,827)
Net profit for the period	**5,628**	**5,55%**	**8,260**	**7,83%**	**(2,632)**
Cash Flow	**10,314**	**10,2%**	**13,074**	**12,4%**	**(2,760)**

3.4 Reclassified balance sheet

(in € / 000)

	30/6/2007	31/3/2007	31/12/2006
Inventories	133,684	132,287	132,392
Accounts Receivable	122,099	110,100	100,343
Other current assets	6,128	6,800	6,110
CURRENT ASSETS	**261,911**	**249,187**	**238,845**
Accounts Payables	(80,609)	(70,933)	(71,626)
Other current liabilities	(38,039)	(35,962)	(32,424)
CURRENT LIABILITIES	**(118,648)**	**(106,895)**	**(104,050)**
NET WORKING CAPITAL	**143,263**	**142,292**	**134,795**
Goodwill	12,089	12,089	12,089
Intangible assets	2,784	2,680	2,639
Tangible assets	95,987	89,816	88,833
Equity Investments and other financial fixed assets	0,003	0,004	0,005
FIXED ASSETS	**110,863**	**104,589**	**103,566**
Receivables due after the following year	2,441	2,440	2,505
Provisions for termination benefits	(7,211)	(7,401)	(7,248)
Provisions for risks and charge and deferred taxes	(11,976)	(11,285)	(10,105)
Other payables due after the year	(8,184)	(3,660)	(4,976)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(24,930)**	**(19,906)**	**(19,824)**
NET CAPITAL EMPLOYED	**229,196**	**226,975**	**218,537**

Short term financial assets	(6,653)	(5,676)	(9,031)
Short term financial debt	60,314	53,717	51,952
NET SHORT TERM FINANCIAL DEBT	**53,661**	**48,041**	**42,921**
Mid-long term financial debt	23,251	23,446	24,003
NET FINANCIAL POSITION	**76,912**	**71,487**	**66,924**
Group Shareholders' Equity	152,284	155,488	151,613
SHAREHOLDERS' EQUITY	**152,284**	**155,488**	**151,613**
TOTAL SOURCES OF FUNDS	**229,196**	**226,975**	**218,537**

3.5 Net financial position

(in € / 000)

	30/06/2007	31/03/2007	31/12/2006
Securities	-	-	-
Cash and cash equivalents	(6,653)	(5,676)	(9,031)
Short term financial assets	**(6,653)**	**(5,676)**	**(9,031)**
Due to banks	59,344	52,753	50,586
Financial payables to holding companies	-	-	-
Due to other lenders	0,970	0,964	1,366
Short term financial debt	**60,314**	**53,717**	**51,952**
Due to banks	21,804	21,781	22,118
Due to other lenders	1,447	1,665	1,885
Due to bondholders	-	-	-
Mid-long term financial debt	**23,251**	**23,446**	**24,003**
Net Financial Position	**76,912**	**71,487**	**66,924**

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.

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 has not changed in the first Half of 2007. Therefore it has to be noted that the first Half 2006 data included only partially Panariagroup USA Inc. and Florida Tile Inc., incorporated at the end of February 2006, while the figures as of June 30th 2007 include the results of these companies for the whole period.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – Figures as of June 30th 2007
(in € / 000)

	31/3/2007	%	31/3/2006	%	var. €
Revenues from sales and services	**190,405**	**97,34%**	**182,350**	**93,76%**	**8,055**
Value of Production	**195,618**	**100,00%**	**194,477**	**100,00%**	**1,141**
Gross operating profit	**27,465**	**14,04%**	**29,771**	**15,31%**	**(2,306)**
Net operating profit	**18,485**	**9,45%**	**20,815**	**10,70%**	**(2,330)**
Pre-tax profit	**16,309**	**8,34%**	**19,350**	**9,95%**	**(3,041)**
Net profit for the period	**9,776**	**5,00%**	**13,496**	**6,94%**	**(3,720)**

The quarterly results are the follows:

- **Consolidated net sales** amounted to **190.4** million Euros, up by **4.4%** in comparison with the same period of the previous year.

- **Gross operating profit** amounted to **27.5 million Euros** (29.8 in the first Half 2006, the **Net operating profit** amounted to **18.5 million Euros** (20.8 in the first Half 2006) and the **Consolidated net profit is 9.8 million Euros** (13.5 in the first Half 2006).

As anticipated in the previous Quarterly Reports, Florida Tile is in the middle of an important restructuring process obtaining a negative gross operating profit that determines a dilution on the Group's results.
Panariagroup's results as of June 30th 2007, without Florida Tile are the following:

	31/3/2007	%
Revenues from sales and services	**157,394**	**100,00%**
Gross operating profit	**28,007**	**17,79%**
Net operating profit	**19,613**	**12,46%**
Pre-tax profit	**17,894**	**11,37%**
Net profit for the period	**10,986**	**6,98%**

As evident, the profitability of the European Business Unit of the Group (Italy and Portugal), equal to **17.8%** on Net Revenues from sales, is on the same level of the last years.

FOCUS Florida Tile

The strategic reorganization of Florida Tile is developing through 3 main guiding lines: commercial, productive and organizational.

The **commercial** reorganization has been directed to the substitution of the red clay products with the porcelain gres products, and to the selection, following profitability criteria, of the product lines and customers. These actions, together with the current unfavourable US market trend in the Real Estate industry, have determined a reduction of the sales of the Company, if compared with the first Half of 2006. Even with this slowdown, we confirm our expectations of 90 million dollars in sales for 2007, as budgeted.

The **productive** reorganization has been realised through the following activities:

- the definitive shut down of the Shannon plant, that realized red body floor tiles, during the month of **February 2007**;
- the temporary furniture of porcelain gres products by our Italian Plants, waiting for the implementation of the new US product line (**first half 2007**);
- the start in **June** of the new high tech production line of porcelain gres in the US, that will reach high performances in the next 3 months.

The achievement of the optimum productive efficiency in the Lawrenceburg Plant (increase of quantity produced with about the same level of personnel) will allow in the next months to fully satisfy the porcelain gres needs, will improve the level of production costs and will eliminate the cost of transport and duty related to the products coming from Italy.

From the **organizational** point of view, the main actions are related to the launch of the new IT system, in **March 2007** and the exit of the previous top management of the Company, with the insertion of a new managemen
t team.

Therefore, even with the current negative results, we confirm the turnaround expectations of the US Company until the end of the year and more consistently starting from 2008.

Revenues

Net sales reported a growth rate of **4.4%** going from 182.3 million Euros of June 30th 2006 up to 190.4 million Euros as of June 30th 2007 (+ 8.1 million Euros); the European companies realised an increase of about 3.7 %

It has to be remarked that the in the second quarter 2007 the European Business Units obtained a growth higher than 7.0%.

Main reference markets

The three main reference area are the Italian market, the European market and the US market; those markets represent approximately the 96% of the net sales of the Group.

Concerning US market, it's very important to underline the significant structural crisis of the Real Estate industry, that recorded an annual reduction of the new constructions of about 20% (source: U.S. Census Bureau) and the consequent decrease in the real estate sales, further aggravated by the "loan crisis" (the common difficulty to reimburse the loan instalments) and the increasing weakness of the US currency.

In this scenario, also our Group recorded a reduction in the turnover on the US market: the European companies of the Group decreased its sales of about 2.0 million dollars, equal to 16%, partially for the Dollar weakness (penalisation of about Euro 0.9 millions) and the US Company Florida Tile lost about 17% compared with the first Half 2006.

It's the total inclusion of Florida Tile in the consolidation scope in the first Half 2007 (6 months of the year vs. 4 months of the previous year) that determine the increase of Euro 0.6 millions in the US sales included in the Consolidated Profit and Loss.

On the contrary, the **European markets** achieved excellent results: the total growth is higher than 9% (+ 6.9 million Euros) and it comes from the strong confirmation on the Panariagroup primary markets and from the develop realized in new markets, especially located in the Eastern Europe.

The incidence of the European markets on the consolidated turnover is around 42%.

The **Italian market**, with a total turnover of 60.3 million Euros and an incidence on the total turnover of about 31%, is on the same level of the previous year; in this context particularly competitive, Panariagroup remarks its significant market share.

The diversification of the Group on the main market of the world allowed to reduce the negative effects deriving from the US crisis, showing its validity as a strategy of reduction of the Country Risk.

The breakdown of sales by Panariagroup's major markets is, related to the First Half:

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

	Nation	*I sem 2007*	*I sem 2006*	*var.*	*%*
1	ITALY	60,284	60,249	0,035	0,1%
2	USA	43,515	42,858	0,657	1,5%
3	PORTUGAL	19,713	18,748	0,965	5,1%
4	FRANCE	17,779	16,185	1,594	9,8%
5	BELGIUM	10,330	10,094	0,236	2,3%
6	GERMANY	8,901	8,409	0,492	5,9%
7	HOLLAND	7,947	7,384	0,563	7,6%
8	UNITED KINGDOM	2,791	2,127	0,506	28,0%
9	GREECE	2,316	1,810	0,664	31,2%
10	SWITZERLAND	2,192	2,204	(0,012)	-0,5%
	OTHERS	18,937	16,107	2,830	17,6%
	TOTAL	**194,705**	**186,175**	**8,530**	**4,6%**

The breakdown of sales by Panariagroup's major markets is, related to the Second Quarter:

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

	Nation	*II Qrt 07*	*II Qrt 06*	*var.*	*%*
1	ITALY	29,727	29,748	(0,021)	-0,1%
2	USA	22,165	27,871	(5,706)	-20,5%
3	PORTUGAL	10,596	9,451	1,145	12,1%
4	FRANCE	9,564	8,552	1,012	11,8%
5	BELGIUM	5,459	5,374	0,085	1,6%
6	GERMANY	4,138	4,195	(0,057)	-1,4%
7	HOLLAND	4,359	3,755	0,604	16,1%
8	UNITED KINGDOM	1,567	1,091	0,476	43,6%
9	GREECE	1,237	0,957	0,280	29,3%
10	SWITZERLAND	1,121	1,161	(0,040)	-3,4%
	OTHERS	9,963	7,951	2,012	25,3%
	TOTAL	**99,896**	**100,106**	**(0,210)**	**-0,2%**

The data remarks how the trends of the main markets of Panariagroup, except for US Market, are characterised by very relevant growth rates.

The success on the more traditional European markets such as Portugal, France, Belgium, Germany and Holland is the evidence of Panariagroup's products recognition and of the high level of presence in these areas even with the Asiatic competitor's pressure.

Also less traditional market for the Group, such as United Kingdom, Greece, Spain, Eastern Europe (Poland, Russia and Bosnia) and more generally the Asiatic markets showed a very interesting developing trend.

Regarding the commercial brands, **Panaria** and **Lea** confirmed the alignment to the previous year's results, even considering the significant decrease on the US market, where these two brands are consistently present.

Excellent the performances for **Cotto d'Este** and **Margres,** increasing respectively of 8.5% and 21.9% while **Fiordo** and **Novagres** obtained trend substantially aligned with the Group result between 2% and 4%.

As widely described, **Florida Tile,** with a turnover of more than 44 million dollars as of June 30th 2007, suffered an important decrease of about 17% compared with first Half 2006.

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)

Type of product	*31/12/2006*	*31/12/2005*	*var.*
Porcelain gres	154,740	146,347	8,393
%	**79,5%**	**78,6%**	
White body wall tiles	21,071	22,151	(1,080)
%	**10,8%**	**11,9%**	
Single-fired floor tiles	5,821	8,082	(2,261)
%	**3,0%**	**4,3%**	
Non ceramic material	13,073	9,595	3,477
%	**6,7%**	**5,2%**	
Totale	**194,705**	**186,175**	**8,530**

The increase in Porcelain gres is the result of the growth obtained by the European Companies of the Group, mainly oriented on this type of products, and of the consolidation of Florida Tile.

The US Company has already started the conversion of many product line in Porcelain gres; as a result the Gres sales passed from 14.4% of June 2006 to 24.0% of June 2007.

The sales of "Single-fire floor tiles" are almost exclusively related to Florida Tile; the reduction is the result of the total abandon of the production of this product and the mere maintenance of some product line acquired by third parties.

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. It has to been underlined that 2006 turnover related to 4 months of activity (Florida Tile incorporated at the end of February 2006) while the 2007 turnover includes all the 6 months.

Operating results

The **Gross operating profit** totalled **27.5 million Euros**, showing a decrease of 2.3 million Euros compared with the same period of 2006.

As previously reported, the First Half confirms the high profitability of the European Business Units of the Group, equal to 17.8% on the net sales, while the US Business Unit continues to suffer the effect of the restructuring process.

Even considering the good profitability of the European Business Units, we have to remark some non-recurrent events that have negatively impacted on the operating results:

- the increasing weakness of the Dollar determined a reduction of the operating profit of about 1 million Euro;
- the new wage settlements regarding Italian Plants (with the payment of *una-tantum*) and the TFR (retirement indemnity) reform (with the consequent impact deriving from mere technical and accounting methods) caused a non-recurrent loss of about 0.7 million euros all in the first Half 2007.

The **Net operating profit**, that equals to 18.5 million Euros, reports a decrease of 2.3 million Euros, aligned with the decrease in the Gross Operating Profit.

The total amount of Depreciation (still not significantly influenced by the relevant US investments) and amortization expenses and provisions is on the same level of 2006.

The combined effect of the increase in the Financial Debt and the growth of the Financial rates produced a rise in the financial costs that passed from 1.5 as of June 30th 2006 to 2.2 as of June 30th 2007.

The tax charge for the first Half 2007 is equal to 6.5 million Euros (40% tax rate) significantly higher than the previous year (5.9 million Euros, with a tax rate of 30%).
We have to remind that the lower tax rate of 2006 was mainly determined by a non-recurrent benefit (the “realignment of values” of the amortisations, allowed by Italian “Legge Finanziaria” 2005) that allowed a tax saving of about 1.8 million Euros. Netted from this benefit, 2006 tax rate is aligned with 2007.

Net profit amounts to 9.8 million Euros, 5.0% of the Value of Production.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	30/6/2007	31/3/2007	31/12/2006
Net Working Capital	**143,263**	**142,292**	**134,795**
Fixed assets	**110,863**	**104,589**	**103,566**
Assets / Liabilities due after year	**(24,930)**	**(19,906)**	**(19,824)**
NET CAPITAL EMPLOYED	**229,196**	**226,975**	**218,537**
Net Financial Position	**76,912**	**71,487**	**66,924**
Shareholders' equity	**152,284**	**155,488**	**151,613**
TOTAL SOURCES OF FUNDS	**229,196**	**226,975**	**218,537**

Net working capital

The Net Working Capital increased in the quarter of 8.5 million Euros, mainly due to the increase of the account receivables, while stock level is substantially unchanged.

It has to be remarked that the Account receivables increase is linked to the normal seasonality of the sales and it’s aligned with the first Half 2006 values.

Investments

The level of assets increased from the beginning of the year of about 7.3 million Euros.

The increase is due to:

- The net investments of the period, equal to 15.2 million Euros: these investments are referred for 9.0 million Euros to the US plant, for 2.0 million Euros to the Portuguese plants and for the remaining 4.2 million Euros to the Italian plants.
- The amortization of the period of 8.0 million Euros.

Net financial position

Financial cash flow
(thousands euro)

	30/6/2007
Net financial position - beginning	**(66,924)**
Net Profit	9,436
D & A	8,019
Net Variation Provisions	2,124
Internal operating Cash flow	**19,579**
Change in net working capital	(5,338)
Dividend distribution	(8,607)
Net Investments	(15,118)
Other movements	(0,503)
Net financial position - final	**(76,911)**

The Net Financial Position reports a negative balance of 76.9 million Euros, with a negative change from the beginning of the year of about 10.0 million Euros.

The negative variation is mainly due to the dividend distribution, made in the second quarter and to the significant level of investments.

5. OPERATIONAL OUTLOOK FOR THE GROUP

Confident with the excellent results on the European Markets and with the confirm of the high profitability of the companies located in this area, we expect the effects of the turnaround of the US Business Unit.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.