Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT
AS OF SEPTEMBER 30th, 2007

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

As of September 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 9 months of 2007. Therefore it has to be noted that the cumulated data as of September 30th 2006 included only partially Panariagroup USA Inc. and Florida Tile Inc., incorporated at the end of February 2006, while the figures as of September 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 September 30th 2007 and by quarter

(in € / 000)

PROFIT AND LOSS ACCOUNT	30/9/2007	%	1st Quarter 07	%	2nd Quarter 07	%	3rd Quarter 07	%
Revenues from sales and services	**271,622**	95,8%	**92,646**	98,4%	**97,759**	96,3%	**81,217**	92,5%
Changes in inventories of finished products	7,274	2,6%	0,484	0,5%	1,903	1,9%	4,887	5,6%
Other revenues	4,535	1,6%	1,020	1,1%	1,806	1,8%	1,709	1,9%
Value of Production	**283,431**	100,0%	**94,150**	100,0%	**101,468**	100,0%	**87,813**	100,0%
Raw, ancillary and consumable materials	(81,030)	-28,6%	(25,366)	-26,9%	(29,216)	-28,8%	(26,448)	-30,1%
Services, leases and rentals	(107,301)	-37,9%	(36,236)	-38,5%	(38,260)	-37,7%	(32,805)	-37,4%
Personnel costs	(53,538)	-18,9%	(18,225)	-19,4%	(18,040)	-17,8%	(17,273)	-19,7%
Changes in inventories of raw materials	(0,459)	-0,2%	(0,259)	-0,3%	(0,176)	-0,2%	(0,024)	0,0%
Other operating expenses	(3,343)	-1,2%	(1,053)	-1,1%	(1,322)	-1,3%	(0,968)	-1,1%
Cost of production	**(245,671)**	-86,7%	**(81,139)**	-86,2%	**(87,014)**	-85,8%	**(77,518)**	-88,3%
Gross operating profit	**37,760**	13,3%	**13,011**	13,8%	**14,454**	14,2%	**10,295**	11,7%
D&A expenses	(12,350)	-4,4%	(3,899)	-4,1%	(4,120)	-4,1%	(4,331)	-4,9%
Provisions and impairments	(1,539)	-0,5%	(0,395)	-0,4%	(0,566)	-0,6%	(0,578)	-0,7%
Net operating profit	**23,871**	8,4%	**8,717**	9,3%	**9,768**	9,6%	**5,386**	6,1%
Financial income and expense	(4,048)	-1,4%	(1,127)	-1,2%	(1,049)	-1,0%	(1,872)	-2,1%
Pre-tax profit	**19,823**	7,0%	**7,590**	8,1%	**8,719**	8,6%	**3,514**	4,0%
Income taxes	(8,351)	-2,9%	(3,442)	-3,7%	(3,091)	-3,0%	(1,818)	-2,1%
Net profit for the period	**11,472**	4,0%	**4,148**	4,4%	**5,628**	5,5%	**1,696**	1,9%

3.2 **Consolidated Profit and Loss account**

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

(in € / 000)

CUMULATED	30/9/2007	%	30/9/2006	%	var.
Revenues from sales and services	**271,622**	**95,83%**	**265,404**	**94,11%**	**6,218**
Changes in inventories of finished products	7,274	2,57%	11,686	4,14%	(4,412)
Other revenues	4,535	1,60%	4,936	1,75%	(0,401)
Value of Production	**283,431**	**100,00%**	**282,026**	**100,00%**	**1,405**
Raw, ancillary and consumable materials	(81,030)	-28,59%	(83,947)	-29,77%	2,917
Services, leases and rentals	(107,301)	-37,86%	(105,399)	-37,37%	(1,902)
Personnel costs	(53,538)	-18,89%	(51,407)	-18,23%	(2,131)
Changes in inventories of raw materials	(0,459)	-0,16%	0,396	0,14%	(0,855)
Other operating expenses	(3,343)	-1,18%	(2,837)	-1,01%	(0,506)
Cost of production	**(245,671)**	**-86,68%**	**(243,194)**	**-86,23%**	**(2,477)**
Gross operating profit	**37,760**	**13,32%**	**38,832**	**13,77%**	**(1,072)**
D&A expenses	(12,350)	-4,36%	(11,997)	-4,25%	(0,353)
Provisions and impairments	(1,539)	-0,54%	(1,522)	-0,54%	(0,017)
Net operating profit	**23,871**	**8,42%**	**25,313**	**8,98%**	**(1,442)**
Financial income and expense	(4,048)	-1,43%	(2,620)	-0,93%	(1,428)
Pre-tax profit	**19,823**	**6,99%**	**22,693**	**8,05%**	**(2,870)**
Income taxes	(8,351)	-2,95%	(7,143)	-2,53%	(1,208)
Net profit for the period	**11,472**	**4,05%**	**15,550**	**5,51%**	**(4,078)**
Cash Flow	**25,361**	**8,95%**	**29,069**	**10,31%**	**(3,708)**

The net profit for the period as of September 30 2006 was favourably affected by a non-recurrent tax benefit of about 2 million Euros resulting from the “realignment of values" of amortisations allowed by Italian law.

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

3.3 Consolidated Profit and Loss account

Third Quarter 2007 and 2006

(in € / 000)

QUARTER	3rd Quarter 2007	%	3rd Quarter 2006	%	var.
Revenues from sales and services	**81,217**	**92,49%**	**83,054**	**94,87%**	**(1,837)**
Changes in inventories of finished products	4,887	5,57%	2,726	3,11%	2,161
Other revenues	1,709	1,95%	1,769	2,02%	(0,060)
Value of Production	**87,813**	**100,00%**	**87,549**	**100,00%**	**0,264**
Raw, ancillary and consumable materials	(26,448)	-30,12%	(27,399)	-31,30%	0,951
Services, leases and rentals	(32,805)	-37,36%	(33,476)	-38,24%	0,671
Personnel costs	(17,273)	-19,67%	(17,458)	-19,94%	0,185
Changes in inventories of raw materials	(0,024)	-0,03%	0,391	0,45%	(0,415)
Other operating expenses	(0,968)	-1,10%	(0,546)	-0,62%	(0,422)
Cost of production	**(77,518)**	**-88,28%**	**(78,488)**	**-89,65%**	**0,970**
Gross operating profit	**10,295**	**11,72%**	**9,061**	**10,35%**	**1,234**
D&A expenses	(4,331)	-4,93%	(4,102)	-4,69%	(0,229)
Provisions and impairments	(0,578)	-0,66%	(0,461)	-0,53%	(0,117)
Net operating profit	**5,386**	**6,13%**	**4,498**	**5,14%**	**0,888**
Financial income and expense	(1,872)	-2,13%	(1,155)	-1,32%	(0,717)
Pre-tax profit	**3,514**	**4,00%**	**3,343**	**3,82%**	**0,171**
Income taxes	(1,818)	-2,07%	(1,289)	-1,47%	(0,529)
Net profit for the period	**1,696**	**1,93%**	**2,054**	**2,35%**	**(0,358)**
Cash Flow	**6,605**	**7,5%**	**6,617**	**7,6%**	**(0,012)**

3.4 Reclassified balance sheet

(in € / 000)

	30/9/2007	30/6/2007	31/12/2006
Inventories	138,107	133,684	132,392
Accounts Receivable	109,114	122,099	100,343
Other current assets	8,168	6,128	6,110
CURRENT ASSETS	**255,389**	**261,911**	**238,845**
Accounts Payables	(75,468)	(80,609)	(71,626)
Other current liabilities	(39,291)	(38,039)	(32,424)
CURRENT LIABILITIES	**(114,759)**	**(118,648)**	**(104,050)**
NET WORKING CAPITAL	**140,630**	**143,263**	**134,795**
Goodwill	12,089	12,089	12,089
Intangible assets	2,577	2,784	2,639
Tangible assets	96,362	95,987	88,833
Equity Investments and other financial fixed assets	0,003	0,003	0,005
FIXED ASSETS	**111,031**	**110,863**	**103,566**
Receivables due after the following year	3,388	2,441	2,505
Provisions for termination benefits	(7,219)	(7,211)	(7,248)
Provisions for risks and charge and deferred taxes	(11,974)	(11,976)	(10,105)
Other payables due after the year	(7,488)	(8,184)	(4,976)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(23,293)**	**(24,930)**	**(19,824)**
NET CAPITAL EMPLOYED	**228,368**	**229,196**	**218,537**

Short term financial assets	(2,602)	(6,653)	(9,031)
Short term financial debt	55,330	60,314	51,952
NET SHORT TERM FINANCIAL DEBT	**52,728**	**53,661**	**42,921**
Mid-long term financial debt	23,015	23,251	24,003
NET FINANCIAL POSITION	**75,743**	**76,912**	**66,924**
Group Shareholders' Equity	152,625	152,284	151,613
SHAREHOLDERS' EQUITY	**152,625**	**152,284**	**151,613**
TOTAL SOURCES OF FUNDS	**228,368**	**229,196**	**218,537**

3.5 Net financial position

(in € / 000)

	30/09/2007	30/06/2007	31/12/2006
Securities	-	-	-
Cash and cash equivalents	(2,602)	(6,653)	(9,031)
Short term financial assets	**(2,602)**	**(6,653)**	**(9,031)**
Due to banks	54,360	59,344	50,586
Financial payables to holding companies	-	-	-
Due to other lenders	0,970	0,970	1,366
Short term financial debt	**55,330**	**60,314**	**51,952**
Due to banks	21,568	21,804	22,118
Due to other lenders	1,447	1,447	1,885
Due to bondholders	-	-	-
Mid-long term financial debt	**23,015**	**23,251**	**24,003**
Net Financial Position	**75,743**	**76,912**	**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 9 months of 2007. Therefore it has to be noted that the cumulated data as of September 30th 2006 included only partially Panariagroup USA Inc. and Florida Tile Inc., incorporated at the end of February 2006, while the figures as of September 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 –Cumulated as of September 30th 2007

(in € / 000)

	30/9/2007	%	30/9/2006	%	var. €
Revenues from sales and services	**271,622**	**95,83%**	**265,404**	**94,11%**	**6,218**
Value of Production	**283,431**	**100,00%**	**282,026**	**100,00%**	**1,405**
Gross operating profit	**37,760**	**13,32%**	**38,832**	**13,77%**	**(1,072)**
Net operating profit	**23,871**	**8,42%**	**25,313**	**8,98%**	**(1,442)**
Pre-tax profit	**19,823**	**6,99%**	**22,693**	**8,05%**	**(2,870)**
Net profit for the period	**11,472**	**4,05%**	**15,550**	**5,51%**	**(4,078)**

The net profit for the period as of September 30 2006 was favourably affected by a non-recurrent tax benefit of about 2 million Euros resulting from the "realignment of values" of amortisations allowed by Italian law

The quarterly results are the follows:

- **Consolidated net sales** amounted to **271.6 million Euros**, up by **2.3%** in comparison with the same period of the previous year.

- **Gross operating profit** amounted to **37.8 million Euros** (38.8 in the first 9 months of 2006), the **Net operating profit** amounted to **23.9 million Euros** (25.3 in the first 9 months of 2006) and the **Consolidated net profit** is **11.5 million Euros** (15.5 in the first 9 months of 2006).

Profit and Loss – Third quarter 2007

(in € / 000)

	3rd qrt 07	%	3rd qrt 06	%	var. €
Revenues from sales and services	**81,217**	**92,49%**	**83,054**	**94,87%**	**(1,837)**
Value of Production	**87,813**	**100,00%**	**87,549**	**100,00%**	**0,264**
Gross operating profit	**10,295**	**11,72%**	**9,061**	**10,35%**	**1,234**
Net operating profit	**5,386**	**6,13%**	**4,498**	**5,14%**	**0,888**
Pre-tax profit	**3,514**	**4,00%**	**3,343**	**3,82%**	**0,171**
Net profit for the period	**1,696**	**1,93%**	**2,054**	**2,35%**	**(0,358)**

The quarterly results are the following:

- **Consolidated net sales** of the third quarter 2007 amounted to **81.2 million Euros**, with a decrease of **2.2%** in comparison with the third quarter 2006.
- **Gross operating profit** amounted to **10.3 million Euros** (9.1 million in the third quarter 2006), the **Net operating profit** amounted to **5.4 million Euros** (4.5 million in the third quarter 2006) and the **consolidated net profit** is **1.7 million Euros** (2.0 million in the third quarter 2006).

Actual results as of September 30th 2007 highlight the following:

- A reduction of marginality in the period (9 months), due to two identifiable factors: the important restructuring process in Florida Tile and the heavy depreciation of the dollar if compared to Euro.

- A positive result of third quarter 2007, with the evidence of a significant increase in gross operating profit if compared to the third quarter of the previous year.

As above mentioned, the important reorganization process of Florida Tile, together with the unfavourable market situation, has influenced the 2007 group consolidated results with a negative contribution of the American controlled company of Euro 1.3 million at gross operating profit level

Furthermore, the current year is further penalized by another particularly significant factor: the heavy depreciation of the dollar.

In fact the average exchange rate in the first 9 months of 2007 has been **1.349 USD / Eur** while in the first 9 months of 2006 the exchange rate was on average **1.244 USD / Eur**. (+ 8.4%)

The effect of exchange rate trend on European Business Unit of Panariagroup is a turnover decrease (and consequently an operating profit decrease) of Euro **1.4 million**, and a worsening of the financial result due to foreign exchange losses amounting to Euro **0.5 million**. The total effect on Pre-tax profit amounted to Euro **1.9 million**.

The following table reproduces the results as of September 30th 2007 of the European Business Units without considering the negative effect of the dollar exchange rate trend. It shows a very positive result in line with the same period of the previous year.

	30/9/2007	%	30/9/2006	%
Revenues from sales and services	**224,672**	**100,00%**	**215,521**	**100,00%**
Gross operating profit	**40,431**	**18,00%**	**39,024**	**18,11%**
Net operating profit	**27,512**	**12,25%**	**26,316**	**12,21%**
Pre-tax profit	**24,610**	**10,95%**	**24,384**	**11,31%**
Net profit for the period	**15,594**	**6,94%**	**17,280**	**8,02%**

The net profit for the period as of September 30 2006 was favourably affected by a non-recurrent tax benefit of about 2 million Euros resulting from the “realignment of values" of amortisations allowed by Italian law

Revenues

Net sales reported a growth rate of **2.3%** going from 265.4 million Euros as of September 30th 2006 up to 271.6 million Euros as of September 30th 2007 (+ 6.2 million Euros); the European companies realised an increase of about **3.9 %**

In the third quarter 2007 the European Business Unites reported a growth rate of **4.1%**

Main reference markets

The three main reference areas are the Italian market, the European market and the US market.

The 2007 has been characterized by the structural crisis of the US Real Estate industry: according to U.S. Census Bureau research, the real estate sales recorded a significant decrease higher than 20%. This trend together with the “loan crisis” (the common difficulty to reimburse the loan instalments) and the heavy weakness of the US currency caused remarkable impacts for all business operators of the sector.

In this scenario, also our Group recorded a reduction in the turnover on the US market: moreover, while Florida Tile lost about 16% compared to the first 9 months of 2006, our European companies maintained the same level of sales in dollars if compared with previous year, suffering a reduction in sales of about Euro 1.4 million exclusively as a result of the Dollar weakness.
In the Group consolidated Profit and Loss as of September 30th 2007 total decrease in the US sales amounted to about Euro 2.9 million, despite the total inclusion of Florida Tile in the consolidation scope in 2007 (9 months of the year vs the 7 months of the previous year).
The incidence of the US markets on the consolidated turnover is around 23%.

On the contrary, the **European markets** achieved excellent results in the first 9 months of the year: the total growth of about 8.4% (+ 9.0 million Euros) comes from the important performances reached on the Panariagroup primary markets, from the develop realized in new markets (especially located in the Eastern Europe), and from the significant growth registered in countries traditionally less significant for the Italian tile operators (Spain, Great Britain). The incidence of the European markets on the consolidated turnover is around 42%.

The **Italian market**, with a total turnover of 81.6 million Euros and an incidence on the total turnover of about 29%, essentially confirms 2006 result, maintaining the important market share of Panariagroup.

The divergent trends observed in the 3 main reference area of Panariagroup, emphasizes the conviction on the validity of the diversification strategy realized by the Group on the main world markets, in order to reduce the Country Risk.

The breakdown of sales by Panariagroup's major markets is, related to the first 9 months of 2007.

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

	Nation	*30/09/2007*	*30/09/2006*	*var.*	*%*
1	ITALY	81,633	82,610	(0,977)	-1,2%
2	USA	64,989	67,931	(2,942)	-4,3%
3	PORTUGAL	28,455	27,505	0,950	3,5%
4	FRANCE	24,679	22,350	2,329	10,4%
5	BELGIUM	14,274	13,816	0,458	3,3%
6	GERMANY	13,004	12,837	0,167	1,3%
7	HOLLAND	10,889	10,361	0,528	5,1%
8	UNITED KINGDOM	4,155	3,338	0,446	16,3%
9	SWITZERLAND	3,176	2,730	0,817	24,5%
10	GREECE	3,195	3,406	(0,211)	-6,2%
	OTHERS	29,365	23,929	5,436	22,7%
	TOTAL	**277,814**	**270,813**	**7,001**	**2,6%**

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

In Europe, excellent performance on revenues has been obtained on French and UK market, but also Portugal, Holland and Belgium performed a positive trend on sales, especially considering the high market share already owned by Panariagroup in these areas.

A great developing opportunity for our Group is represented from the less traditional markets, such as Eastern Europe and Asia. In these geographical areas we performed an increase on revenues of about 4 million Euro (+ 35%).

In the last couple of year the economic growth in these developing country, traditionally oriented on low-end products, has increased their demand for high and deluxe products (in particular for "made in Italy" brand) opening interesting growth possibility for our ranges of products.

Regarding the <u>commercial brands</u>, **Panaria** confirmed the alignment to the previous year's results, even considering the significant decrease on the US market, while **Lea** signed an excellent quarter result (+8%) reaching a positive annual performance of about 2%.

Cotto d'Este (+5.5%), **Novagres** (+4.2%) and **Fiordo** (+3.3%) confirmed a considerable growth rate, in line with the average of European Business Units. **Margres** maintains excellent results with an increase in revenues of 17.3%. As previously reported Florida Tile, with a turnover amounting to about 65 million dollars as of September 30th 2007, drops by about 16%.

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	222,233	209,765	12,468
%	**80,0%**	**77,5%**	
White body wall tiles	29,052	32,566	(3,515)
%	**10,5%**	**12,0%**	
Single-fired floor tiles	6,754	12,170	(5,416)
%	**2,4%**	**4,5%**	
Non ceramic material	19,775	16,312	3,463
%	**7,1%**	**6,0%**	
Totale	**277,814**	**270,813**	**7,001**

The increase in Porcelain gres reflects 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 lines in Porcelain gres; as a result the Gres sales passed from 17.7% of September 2006 to 28.0% of September 2007.

The decrease of “White body wall tiles” is determined by a strong decrease in Florida Tile, where this type is typically reserved to large distributors, and a significant increase for Novagres, particularly specialized in that segment.

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 7 months of activity (Florida Tile incorporated at the end of February 2006) while the 2007 turnover includes all the 9 months.

Operating results

In consideration of the significant sales performed on US market, the Operating results are visibly influenced from the weakness of the Dollar against Euro.

The **Gross operating profit** totalled **37.8 million Euros**, showing a decrease of 1.1 million Euros compared with the same period of 2006.

The non-recurrent events that have negatively impacted on the operating results are the following:

- the continuative weakness of the Dollar determined a reduction of the operating profit of about 1.4 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 9 month of 2007.

As previously reported, the first 9 month of 2007 confirms the high profitability of the European Business Units of the Group, which, net of currency exchange effect, generated a gross operating profit of about 18% on the net sales. At the contrary the US Business Unit is still penalized by the restructuring process.

The **Net operating profit**, that equals to 23.9 million Euros, reports a decrease of 1.4 million Euros, compared with the same period of 2006.

The total amount of Depreciation, amortization and provisions increased, in absolute terms, of about 0.3 million Euros but remained substantially aligned with previous year in relative terms (+ 0.1% on the value of production).

The increase of financial costs which rose from 2.6 million Euro as of September 30th 2006 to 4.0 million Euros as of September 30th 2007 is due to the combination of the following factor:

- the growth of the Financial rates (with an effect on financial costs for the period of about 0.6 million Euro)
- the negative exchange differences due to the depreciation of the Dollar (with an effect on financial costs for the period of about 0,5 million Euros)
- the increase of the average Net Financial Position of the period (with an effect on financial costs for the period of about 0.3 million Euros)

The tax charge for the first 9 months of 2007 is equal to 8.3 million Euros (42.1% tax rate) significantly higher than the previous year (7.1 million Euros, with a tax rate of 31.5%).
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 11.5 million Euros, 4.0% of the Value of Production.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	30/9/2007	30/6/2007	31/12/2006
Net Working Capital	**140,630**	**143,263**	**134,795**
Fixed assets	**111,031**	**110,863**	**103,566**
Assets / Liabilities due after year	**(23,293)**	**(24,930)**	**(19,824)**
NET CAPITAL EMPLOYED	**228,368**	**229,196**	**218,537**
Net Financial Position	**75,743**	**76,912**	**66,924**
Shareholders' equity	**152,625**	**152,284**	**151,613**
TOTAL SOURCES OF FUNDS	**228,368**	**229,196**	**218,537**

Net working capital

The Net Working Capital increased in the first 9 month of 2007 of 5.8 million Euros, mainly due to the increase of the account receivables and inventories.

It has to be remarked that the decrease of Net Working Capital in the third quarter is mainly due to the decrease of Accounts receivable linked to the normal seasonality of the sales.

Investments

The level of assets increased from the beginning of the year of about 7.5 million Euros.

The increase is due to:

- The net investments of the period, equal to 19.8 million Euros: these investments are referred for 10.5 million Euros to the US plant, for 2.8 million Euros to the Portuguese plants and for the remaining 6.5 million Euros to the Italian plants.
- The amortization of the period of 12.3 million Euros.

Net financial position

Financial cash flow
(thousands euro)

	30/9/2007
Net financial position - beginning	**(66,924)**
Net Profit	11,472
D & A	12,350
Net Variation Provisions	2,830
Internal operating Cash flow	**26,652**
Change in net working capital	(5,196)
Dividend distribution	(8,607)
Net Investments	(19,815)
Other movements	(1,853)
Net financial position - final	**(75,743)**

The Net Financial Position reports a negative balance of 75.7 million Euros, with a negative change from the beginning of the year of about 8.8 million Euros.

The negative variation is mainly due to the dividend distribution, made in the first half of 2007 and to the significant level of investments.

5. OPERATIONAL OUTLOOK FOR THE GROUP

Despite the negative economic situation caused by the financial crisis on the US market (with a partial repercussion also on our economy) and the consequent impact on the real estate sector, we expect to confirm the excellent performance on European and Emerging markets and we expect a gradual sales recovery on US markets as a consequence of the Group strategies.
In relation to the American Business Unit, with the start of the new system production line (which took place in September 2007) and with other organizing operations made in the previous months, the first phase of the important corporate restructuring could be considered concluded.
Therefore we believe we can now begin to benefit from the turnaround of Florida Tile.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.