



**Directors' Report  
to the Annual General Meeting**

**First convocation:** April 26, 2007, time 15.00  
at Castellarano, Via Guido Reni n.2/OP

**Second convocation:** May 14, 2007, time 15.00  
at Castellarano, Via Guido Reni n.2/OP

**Directors' Report on the Agenda prepared in accordance with article 3 of the Justice Minister Decree No. 437 of November 5, 1998 and Consob Resolution No. 11971 of May 14, 1999 and subsequent amendments.**

**GRANITIFIANDRE S.p.A.**

Registered office at Castellarano (RE) - via Radici Nord 112

Share capital Euro 18,431,339

Company's Register Office Reggio Emilia & fiscal number: 03056540374

Company subject to the management and direction of Iris Due S.p.A.

**Annual General Meeting of April 26, 2007 - May 14, 2007**

***Directors' Report***

Dear Shareholders,

you are convened to the Annual General Meeting to be held on:

April 26, 2007 in first convocation

May 14, 2007 in second convocation

to deliberate on the following

**agenda**

- 1) Presentation of the financial statements for the year ended December 31, 2006; Directors' Report on operations; Board of Statutory Auditor's Report; deliberations thereon. Presentation of the consolidated financial statements for the year ended December 31, 2006 and reports thereto.
- 2) Appointment of the members of the Board of Directors, with prior determination of the number of directors and determination of the relative remuneration.
- 3) Appointment of the Board of Statutory Auditors and determination of the relative remuneration. The appointments are made in accordance with article 22 of the Company By-Laws.
- 4) Appointment of the external audit firm in accordance with Legislative Decree No. 58/1998 and determination of the relative remuneration.
- 5) Approval of the incentive plan for the directors.

In relation to the matters on the agenda, we present the following report

**Point No. 1**

*Presentation of the financial statements for the year ended December 31, 2006; Directors' Report on operations; Board of Statutory Auditor's Report; deliberations thereon. Presentation of the consolidated financial statements for the year ended December 31, 2006 and reports thereto.*

Reference should be made to the financial statements for the year ended December 31, 2006, as well as the Directors' Report on operations, with particular reference to the proposal for the appropriation of the net profit at the end of the document.

**Point No. 2**

*Appointment of the members of the Board of Directors, with prior determination of the number of directors and determination of the relative remuneration.*

At the date of the approval of the financial statements for the year ended December 31, 2006, the mandate of the Board of Directors terminated, conferred on May 13, 2004.

It is therefore necessary to appoint the new Board of Directors and the determination of the number of board members and the relative remuneration.

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In relation to this, we recall that article 13 of the By-Laws provides for the following:

“The company shall be administered by a board of directors, composed of between two and eleven members, who remain in office for three years and may be re-elected.

The shareholders' meeting must first determine the number of board members and the duration of the office.

The shareholders' meeting also appoint the director responsible for the function of employment in accordance with the provisions of article 2 of Legislative Decree No. 626 of September 19, 1994 and subsequent modifications.

The board of directors in its first meeting, in accordance with this resolution, delegates powers to the director nominated to attribute the relative decisional powers.

In the case of the loss of office of the director responsible for the function of employment, through resignation (however motivated), being no longer deemed eligible for office, death or any other reason, the entire board will no longer be eligible for office, and must call an ordinary shareholders meeting to nominate the new Board of Directors within 70 days of such occurrence.

In the case of termination due to death, incapacity or any other cause by the director responsible for the function of employment, the board of directors may, although the board is no longer eligible for office, appoint the director with the relative decisional powers in accordance with the provisions of article 2 of Legislative Decree No. 626 of September 19, 1994 and subsequent modifications - an appointment which will remain valid until the next ordinary shareholders' meeting.

Should one or more vacancies occur, the Board may co-opt a new member approved by the Board of Statutory Auditors. Such directors shall remain in office until the next shareholders' meeting.

Where, through resignation, or any other reason, the majority of the board appointed by the shareholders' meeting is no longer in office, the entire board lapses until its reconstitution. In this case, a shareholders' meeting must be called with urgency for the appointment of all the directors.

The shareholders' meeting may resolve not to replace the directors, reducing the number of members on the board, indicated in the previous paragraph”.

In addition, Legislative Decree No. 303 of December 29, 2006 amended article 147-ter of Legislative Decree No. 58/1998 in relation to the nomination of the members of the Board of Directors. In particular, in accordance with paragraph 1 of the above-mentioned regulation “**the By-laws require** that the members of the Board of Directors are elected on the basis of candidate slates and the chairman determines the minimum shareholding required for the presentation, not above 40% of the share capital or otherwise established by Consob with regulations taking into consideration the company's capitalisation, free float and shareholder structure of listed companies”.

The same decree extends the term in which companies must amend their By-laws to June 30, 2007 in accordance with the provisions contained therein: At the current date, Consob has not issued the relative regulations and therefore Granitifiandre spa has not modified the current By-laws in order to incorporate all the regulations of the instructions.

We recall that the Instructions to the Regulations of the Italian Stock Exchange, in relation to the independent directors of the Board of Directors of companies on the Star segment (where GranitiFiandre spa is listed), considers the following number as adequate:

- at least two independent directors for the Board of Directors of 8 members
- at least three independent directors for the Board of Directors between 9 and 14 members
- at least four independent directors for the Board of Directors over 14 members.

Consequently, the shareholders must nominate an adequate number of independent directors in relation to the number of members on the Board of Directors.

**Point No. 3**

*Appointment of the Board of Statutory Auditors and determination of the relative remuneration. The appointments are made in accordance with article 22 of the Company By-Laws.*

At the date of the approval of the financial statements for the year ended December 31, 2006, the Board of Statutory Auditors mandate terminates.

The Shareholders' Meeting therefore is called to appoint the new Board of Statutory Auditors and determine the relative remuneration.

In relation to this, we recall that article 22 of the By-Laws provides for the following:

“The Board of Statutory Auditors is composed of three standing members, both of shareholders and non shareholders; the Shareholders' meeting also appoints two alternate members.

The requisites (including those of professionalism and integrity), the responsibilities, the duties and the duration are those as prescribed by law.

The nomination of one standing member and one alternate member is reserved to the minority shareholders.

In particular, regarding the requisites of professionalism, in relation to the provisions of article 1, paragraph 3 of the Ministerial Decree 162 of March 30, 2000, with reference to paragraph 2, letters b) and c) of the same article 1, for the matters strictly concerning activities performed by the company, it is intended, among other matters, commercial law, company law, business economics, finance, statistics as well as similar disciplines, although referred to otherwise, while for the sectors of activity strictly relating to sectors of activity in which the company operates, it is intended, among others, the sectors of wholesale distribution and trade and retail sale of ceramic and porcelain products.

The office of statutory auditor is incompatible with similar offices held in more than five other listed companies, with the exclusion of the subsidiaries of the Company in accordance with article 2359 of the Civil Code.

The standing and alternate statutory auditors are elected by the ordinary shareholders' meeting in accordance with the following procedures.

Shareholders representing at least 5.00% of the share capital having the right to vote at an Ordinary Shareholders' Meeting – recorded in the share register at least 3 months before the date fixed for the Shareholders' Meeting in first convocation - can present a slate of candidates, in progressive number, deposited at the registered office of the company at least 5 full days before the date fixed for the Shareholders' Meeting in first convocation, at the risk of ineligibility.

In order to confirm the title of the shares necessary for the presentation of slates, the shareholders must at the same time present, at the registered office of the company, a copy of the certificate issued by the depository holding their shares.

Each slate must clearly indicate 3 (three) candidates for the office of standing auditor and 2 (two) for the office of alternate auditor.

Each shareholder shall present and vote only one slate and each candidate shall be presented on only one slate, at the risk of ineligibility.

The shareholders that are subject to common control, as per article 2359 of the Civil Code, due to an accumulation of common control or due to shareholder agreements, can present and vote only one slate.

The declarations of the individual candidates, in which they accept their candidacies and certify, under their own responsibility, the inexistence of any cause of ineligibility or incompatibility, as well as the satisfaction of the requirements prescribed by applicable law for their respective offices,

must be lodged together with each slate by the respective deadlines at the registered office of the company.

The standing auditors elected are:

- the Chairman of the Board of Statutory Auditors, is the first candidate indicated at number 1 in the slate, which obtains the most number of votes;
- the Standing Auditors are the number 2 of the slate, which obtains the most number of votes, and the number 1 of the slate, that obtains the second most number of votes;
- the Alternate Auditors are the candidates indicated as number 1 alternate of the slate, which obtains the most number of votes, and of the slate that obtains the second most number of votes;

In the case where two or more slates have obtained the same number of votes, a new vote takes place.

In the case of presentation of only one slate, the candidates will be taken from that slate.

In the case of the resignation of a standing auditor, the alternate auditor is taken from the same slate as the auditor replaced.

The shareholders' meeting called to reintegrate the Board in compliance with the provisions of law will do so in accordance with the above-mentioned consideration for the representation of the minority shareholders.

In appointing auditors who for any reason are not appointed pursuant to the procedure specified above, the shareholders' meeting votes according to the majorities required by law".

It is recalled that Law 262/2005, replacing article 148, paragraph 2 of Legislative Decree 58/1998, empowers Consob to establish regulations in relation to the procedures for the election, with voting of slates, of a standing member of the Board of Statutory Auditors by the minority shareholders which are not related, including indirectly, with the shareholders which have presented or voted the slates resulting from the first number of votes.

At the present date, Consob has not issued the relative regulations.

#### **Point No. 4**

*Appointment of the external audit firm in accordance with Legislative Decree No. 58/1998 and determination of the relative remuneration.*

At the date of the approval of the financial statements for the year ended December 31, 2006, and of the consolidated financial statements as at 31/12/2006, the mandate expires of the audit conferred by the Shareholders' Meeting to the company Deloitte & Touche SpA.

The Shareholders' Meeting is therefore called to appoint the auditors.

The Board of Directors meeting of March 27, 2007 received the proposal from the Board of Statutory Auditors - proposal which this latter will directly present to the Shareholders' Meeting - which identifies the audit company Deloitte & Touche spa as the company to be appointed auditors of the financial statements of GranitiFiandre spa, including the relative verifications on the correctness of the accounting records, the consolidated financial statements of the Group and the half-year report of GranitiFiandre spa.

The Proposal, agreed with the Internal Control Committee, was made after analysis of three offers received from leading audit firms.

The proposal is based on the best financial terms as well as positive evaluations in relation to the breadth and quality of the services offered, the organisational efficiency, the proven professional experience and accumulated knowledge of the company structure in the previous two 3-year

appointments, which permit the optimisation of the work and corresponding costs, directly and indirectly, chargeable to the companies of the GranitiFiandre Group.

As the assignment relates to the extension of the previous appointments, the new assignment is conferred for the next three years, which will reach the maximum period of 9 years contained in the new regulations.

The proposal of Deloitte & Touche S.p.A. for the relative verifications of the correctness of the accounting records, the audit of the consolidated financial statements of the Group and the audit of the half-year report of GranitiFiandre SpA provides for a total annual payment of Euro 54,000 for an expected total of 775 hours.

The estimate of the number of hours was determined taking into account the reliability of the systems, of the organisational structure and of the size of the company - elements well-known by the company Deloitte & Touche SpA.

The Shareholders are also informed that the proposals received are available for inspection at the company and attached to the present report is the proposal of the Board of Statutory Auditors in accordance with article 159, paragraph 1 of Legislative Decree No. 58/1998 and article 146 of CONSOB resolution No.11971 of May 14, 1999.

We therefore invite you to deliberate on the proposal illustrated, through adopting the following resolution:

“The Shareholders' Meeting of Granitifiandre S.p.A.

Deliberates

to appoint, in accordance with articles 155 and 159 of Legislative Decree No. 58 of February 24, 1998, Deloitte & Touche S.p.A., with registered office at Milan, Via Tortona 25, the audit and certification of the financial statements, including the verification of the correctness of the accounting records of Granitifiandre S.p.A. and of the group consolidated financial statements for the years ended December 31, 2007, 2008 and 2009, for the following annual fees:

- audit of the financial statements of Granitifiandre spa	hours 520	€ 35,000
- audit of the consolidated financial statements of the Group including the co-ordination of the audit work of the consolidated financial statements and consolidation verification procedures	hours 75	€ 5,000
- verification of correct accounting records and		
- the correct recording of operational activities in		
- the underlying accounting entries	hours 60	€ 5,000
- limited audit on the half-year report of GranitiFiandre SpA	hours 120	€ 9,000
	total	hours 775 €54,000

in consideration that these fees were determined in accordance with the criteria of CONSOB Communication No. 96003556 of April 18, 1996 and reflecting the current tariffs in force and will be adjusted annually in accordance with the changes in the ISTAT cost of living index from 1/7/2008 (base June 2007), as well as the verification of exceptional and unforeseen circumstances; the amounts indicated do not include VAT and reimbursement of expenses;

3. to assign to the Board of Directors and through them the Chairman and the Executive Director, the formalisation of the executive agreements with Deloitte & Touche S.p.A. in accordance with the above decisions and to undertake all related compliance”.

**Point No. 5***Approval of the incentive plan for the directors*

In accordance with the Stock Exchange Regulations relating to the Star segment, the ordinary Shareholders' Meeting of Granitifiandre Spa held on May 13, 2004 deliberated to undertake agreements with the executive directors and the senior management of the Company that a significant part of their gross remuneration would constitute emoluments on objectives related to the financial results of the Company, including stock option benefits.

The stock option agreements with the Chairman of the Board Graziano Verdi and with the executive director Giacomo Mazzoni are still valid.

At December 31, 2006, the agreements with executive directors expired relating to the remuneration tied to the reaching of pre-fixed objectives.

The Board of Directors meeting of March 27, 2007 formulated a proposal for the adoption of a new incentive plan for the directors to be presented for approval to the Shareholders' Meeting.

These agreements provide for a significant part of the remuneration of the directors Graziano Verdi and Alberto Selmi on objectives related to the results of the Company.

In particular, these agreements recognise further remuneration on the reaching of pre-fixed financial objectives related to an increase in sales and maintaining high levels of margins and cash flow.

We therefore invite you to deliberate, with the prior favourable approval of the Board of Statutory Auditors, on the proposal illustrated adopting the following resolution:

“The Shareholders' Meeting of GRANITIFIANDRE S.p.A., having taking notice of the proposal made by the Board of Directors of March 27, 2007

Deliberates

to make agreements that provide for a significant part of the remuneration of the directors Graziano Verdi and Alberto Selmi to be related to the achievement of objectives related to the results of the Company, in such terms for each as illustrated by the Chairman and resulting from the documentation maintained by the Company”.

Castellarano, March 27, 2007

for the Board of Directors  
Graziano Verdi  
Chairman

The present report was sent to Consob and Borsa Italiana Spa and deposited at the registered office of the company at least 15 days before the shareholders' meeting. This report is also available on the Company's website [www.granitifiandre.com](http://www.granitifiandre.com), in the Investor Relations section.





**PROPOSAL OF THE BOARD OF STATUTORY AUDITORS  
TO THE ANNUAL GENERAL MEETING  
IN RELATION TO THE APPOINTMENT OF THE AUDITORS  
AS PER ARTICLE 159 OF LEGISLATIVE DECREE NO. 58 OF 24.02.1998**

**First convocation:** April 26, 2007, time 15.00  
at Castellarano, Via Guido Reni n.2/OP

**Second convocation:** May 14, 2007, time 15.00  
at Castellarano, Via Guido Reni n.2/OP

**GRANITIFIANDRE S.p.A.**

Registered office at Castellarano (RE) - via Radici Nord 112

Share capital Euro 18,431,339

Company's Register Office Reggio Emilia &amp; fiscal number: 03056540374

Company subject to the management and direction of Iris Due S.p.A.

**PROPOSAL OF THE BOARD OF STATUTORY AUDITORS IN RELATION TO THE APPOINTMENT OF THE AUDITORS AS PER ARTICLE 159 OF LEGISLATIVE DECREE NO. 58 OF 24.02.1998**

The Board of Statutory Auditors of Granitifiandre S.p.A., composed of Edoardo Rossini Chairman, Rosa Carla Parisi and Francesca Pagliani, standing members, in accordance with the provisions of article 159 of Legislative Decree 58\98, which requires the formulation of a proposal for the appointment of the audit of the financial statements and consolidated financial statements, at the next shareholders' meeting called also to appoint the new board of statutory auditors, expresses the following considerations.

The company received three offers for the audit of the financial statements and consolidated financial statements relating to the company Granitifiandre S.p.A..

The offers received from the above-mentioned companies also relates to the subsidiaries of GranitiFiandre, which compulsorily must be separately audited.

The companies of the group which must compulsorily be separately audited are: Granitifiandre S.p.A., also as parent company, Hydrodesign s.r.l., a 51% subsidiary, StonePeak Ceramics Inc., an American company 98.36% directly held; Savoia Canada, a Canadian subsidiary with a holding of 71.01% and Porcelaingres GmbH, a German company 99.9% directly held.

Offers were received from the following companies: KPMG; PriceWaterhouse and Deloitte&Touche.

It should be noted that this latter company is the current external auditor.

Having made a comparison in relation to the financial proposals from the companies, the offers received were as follows:

**KPMG:**

- for GranitiFiandre s.p.a. and for the consolidated financial statements € 100,000.00
- for all the 5 companies compulsory audits: € 256,200.00

**PriceWaterhouse**

- for GranitiFiandre s.p.a. and for the consolidated financial statements € 79,000.00
- for all the 5 companies compulsory audits: € 261,000.00

**Deloitte & Touche**

- for GranitiFiandre s.p.a. and for the consolidated financial statements € 54,000.00
- for all the 5 companies compulsory audits: € 205,000.00

The best offer from a strictly financial viewpoint was definitely that received from Deloitte & Touche.

Examining the proposal of Deloitte & Touche it is noted:

- that this proposal contains the audit plan of the financial statements for the years ended December 31, 2007, 2008 and 2009 and the related consolidated financial statements with the scope of expressing an opinion in accordance with article 156 of Legislative Decree 58/98 and that this plan was deemed adequate and complete;
- that this proposal contains an illustration of the procedures of the verifications required by article 155, paragraph 1, letter a) and b) of Legislative Decree 58/1998 and that these procedures are adequate;
- that the audit company fulfils the statutory requirements of independence and that there are no current incompatibilities;
- that the audit company have sufficient organisational and technical knowledge for the size and complexity of the assignment.

Therefore, there are also other reasons which the Board deemed appropriate to consider in assigning the audit appointment to this company.

In fact, this company has for six years carried out this assignment; the company therefore has matured detailed knowledge of the group, thus ensuring optimisation of time and knowledge on the most important issues.

The comfort from the new provisions of article 159, paragraph IV, of Legislative Decree 58\98 is added to this, where the assignment has a duration of nine years: The conferment of Deloitte & Touche, for a further three years, will ensure compliance with this legislation.

In view of these considerations, the Board of Statutory Auditors of Granitifiandre S.p.A.

proposes

that the audit of the financial statements of the company Granitifiandre S.p.A. and of the group consolidated financial statements will be undertaken, for the three-year period, by the company Deloitte & Touche S.p.A., for the total indicated as Euro 54,000.00.

Castellarano, March 27, 2007

Dr. Edoardo Rossini, Chairman of the Board of Statutory Auditors  
Rosa Carla Parisi, standing auditor,  
Francesca Pagliani, standing auditor.