Zignago Vetro SpA

Consolidated Annual Report and Accounts
Financial Year 2006

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ZIGNAGO VETRO SpA

Registered office: Via Ita Marzotto, 8 – Fossalta di Portogruaro (VE) – Italy

Share capital: €8,000,000 fully paid in

Sole shareholder: Zignago Holding SpA

Tax Code and Venice Company Register no. 00717800247

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CORPORATE BODIES AND OFFICERS

Board of Directors
in office for period: 2005- 2007

Chairman and Chief Executive Officer
Franco Grisan

Deputy Chairman
Nicolò Marzotto

Directors
Giuseppe Breviari
Marco Donà dalle Rose
Ovidio Dri
Maurizio Guseo
Maurizio Pizzolotto

Independent Auditor
for the financial year 2006

Reconta Ernst & Young SpA

Statutory Auditors' Committee
in office for period: 2003 - 2005

Chairman
Paolo Nicolai

Statutory Auditor
Andrea Dalla Vecchia
Carlo Pesce

General Management

General Manager
Franco Grisan

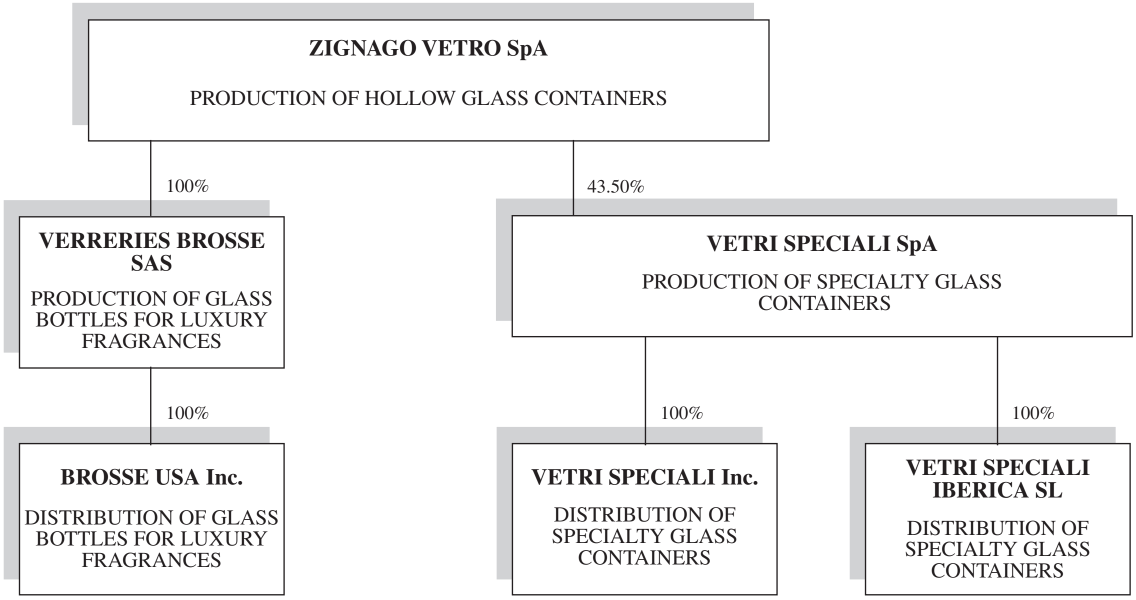
Deputy General Manager and Technical Director
Ovidio Dri

Sales & marketing Director
Maurizio Guseo

Development Director
Roberto Moretto

STRUCTURE OF ZIGNAGO VETRO GROUP
AS AT 13 FEBRUARY 2007

BUSINESSES AND EQUITY INVESTMENTS



Directors' Report on Operations
and Consolidated Accounts
Financial Year 2006

THE GROUP

To Our Shareholders,

Effective 31 December 2006, Zignago Vetro SpA waived the option envisaged in Article 27 (3, 4, 5) of Italian legislative decree 127/91, deciding to submit the Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 and the Directors' Report on Operations.

The Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 were prepared in accordance with the IFRSs as issued by the International Accounting Standards Board and endorsed by the European Commission. The IFRSs were applied to the assets and liabilities that satisfied the requirements for recognition at the 1 January 2004 transition date, with the exception of IASs 32 and 39, which were applied beginning 1 January 2005.
The Notes to the Consolidated Financial Statements include the information that is normally required by applicable law and accounting principles, which is illustrated as appropriate in reference to the financial statement formats used. The Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 were also prepared for inclusion in the prospectus required as part of listing of the ordinary shares of Zignago Vetro SpA on the Italian screen-based equity market Mercato Telematico Azionario, STAR Segment, which is organized and managed by Borsa Italiana SpA.

For comparison of the financial figures as at 31 December 2006 and 31 December 2005, the scope of consolidation of the Zignago Vetro Group as at 31 December 2006 and 31 December 2005 is as follows:

- Zignago Vetro S.p.A. (parent company)
- consolidated on a **100% line-by-line basis,** on the financial statements as at 31 December 2006 and 31 December 2005:
  - Verreries Brosse SAS and its subsidiary:
    - Brosse USA Inc.
- consolidated on a **proportional line-by-line basis,** for the 43.5% shareholding, on the financial statements as at 31 December 2006:
  - Vetri Speciali SpA and its subsidiaries:
    - Vetri Speciali Inc.
    - Vetri Speciali Iberica S.L.

In October 2004, the scope of consolidation changed when the parent company, Industrie Zignago Santa Margherita SpA (IZSM), completed a process of corporate reorganization by acquiring 43.5% of the capital of Vetri Speciali SpA, the parent company of three production companies (which were merged at the beginning of 2005) and two sales companies.

When it completed the aforementioned reorganization, IZSM sold the 43.5% shareholding in Vetri Speciali SpA to its subsidiary Zignago Vetro SpA on 30 June 2006, in addition to a call option on an additional share of the Company's share capital and certain related agreements. Since the transaction for sale of the shareholding in Vetri Speciali SpA by IZSM to Zignago Vetro SpA took place on the basis of continuity of financial reporting, the income statement of Vetri Speciali SpA was consolidated beginning 1 January 2006, even though the shareholding was acquired on 30 June 2006.

The business areas in which Zignago Vetro SpA operates are organized into individual companies. Disclosure on operating performance by business segment and geographical area (segment reporting) is included in the illustration of the financial statement data for each company and is an integral part of this report on operations.

The consolidation and measurement principles are illustrated on pages 44-59, together with the shares of equity interest owned by Zignago Vetro Spa.

The figures illustrated in this Report on Operations and on the accompanying accounting statements are expressed in thousands of euros (indicated hereinafter as € thousand).

Independent Auditor

The financial statements of Zignago Vetro SpA for the three-year period 2004-2005-2006 have been audited by the independent auditor **RECONTA ERNST & YOUNG SpA**. This firm was also retained to audit the consolidated financial statements as at 31 December 2006 and 31 December 2005.

To Our Shareholders,

Net consolidated revenues achieved during the year that ended 31 December 2006 totaled €209,427 thousand, including the change in the scope of consolidation resulting from acquisition of the new investment in Vetri Speciali SpA, as previously mentioned. Revenues totaled €155,303 thousand in the previous year.

The consumption of goods and services was significantly impacted by the increase in energy costs. This item totaled €112,405 thousand at 31 December 2006, compared with €87,265 thousand the previous year, reflecting the change in the scope of consolidation. However, its ratio to the value of production contracted from 54.7% to 53.2%.

Consolidated value added as at 31 December 2006 was €98,883 thousand, compared with €72,126 thousand in the previous year. The change is not comparable due to the previously mentioned change in scope of consolidation. Its ratio to the value of production rose from 45.3% to 46.8%.

Payroll & employee benefits during the financial year totaled €45,058 thousand, compared with €35,460 thousand in 2005. The increase is mainly attributable to the change in the scope of consolidation following inclusion of Vetri Speciali SpA. A total of 185 new employees are included in the scope of consolidation. To a lesser extent, this greater expense corresponds to the higher average unit cost of labor and the higher number of hours worked. Its ratio to the value of production decreased from 22.3% to 21.3%.

Consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) as at 31 December 2006 totaled €53,825 thousand, compared with €36,666 thousand in 2005 (which is not a comparable figure), representing 25.5% of the value of production (23% as at 31 December 2005).

Consolidated earnings before interest and taxes (EBIT) for the year totaled €31,280 thousand, representing 14.8% of the value of production, compared with €17,719 thousand and 11.1% in the previous year (which is not a comparable figure).

Consolidated income before taxes totaled €27,689 thousand including costs connected with the process of listing Zignago Vetro SpA (€1,487 thousand), compared with €19,659 thousand in 2005, which had benefited from incidental income resulting from the release of a risk reserve by Zignago Vetro SpA for €1,549 thousand. It represents 13.1% of the value of production, compared with 12.3% in the previous year (with comparable figures that are standardized by the extraordinary effects of the release of reserves in 2005 and the costs incurred in 2006 for the listing process of 13.8%, compared with 11.3% in 2005).

Group **net consolidated income** totals €15,415 thousand, compared with €11,853 thousand for 2005.

Cash flow (net income + amortization and depreciation) totals €37,526 thousand, compared with €30,470 thousand in the previous year.

Income Statement

The income statement prepared in accordance with the IFRSs is illustrated on page 39. The notes on the income statement begin on page 86.

The following table illustrates highlights of the Group's consolidated income statement compared with the previous year (different scope of consolidation).

	2006 (*)		2005 (**)		Change
	k euro	%	k euro	%	%
Net revenues	209.427	–	155.303	–	34,9%
Change in finished product, semi-finished product and work-in-progress inventories	1.741	–	4.088	–	nmf
Internally produced non-current assets	120	–	–	–	nmf
Value of production	211.288	100,0%	159.391	100,0%	32,6%
Costs of materials and outside services	(112.405)	(53,2%)	(87.265)	(54,7%)	28,8%
Value added	98.883	46,8%	72.126	45,3%	37,1%
Payroll & employee benefits	(45.058)	(21,3%)	(35.460)	(22,3%)	27,1%
EBITDA	53.825	25,5%	36.666	23,0%	46,8%
Depreciation and amortization	(22.111)	(10,5%)	(18.617)	(11,7%)	18,8%
Provisions & write-downs	(434)	(0,2%)	(330)	(0,2%)	31,5%
EBIT	31.280	14,8%	17.719	11,1%	76,5%
Net non-recurring operating income	12	–	2.171	1,3%	nmf
Net non-recurring costs	(1.427)	(0,7%)	–	–	nmf
Operating income	29.865	14,1%	19.890	12,4%	50,2%
Net financial income	(2.120)	(1,0%)	(66)	–	nmf
Net exchange-rate differences	(56)	–	(165)	(0,1%)	(66,1%)
Income before taxes	27.689	13,1%	19.659	12,3%	40,8%
Income taxes and IRAP	(12.274)	(5,8%)	(7.806)	(4,9%)	57,2%
(at 31 December 2006: 44.3%)					
(at 31 December 2005: 39.7%)					
Net income for the year	15.415	7,3%	11.853	7,4%	30,1%

(*) Zignago Vetro SpA + Verreries Brosse SAS + Vetri Speciali SpA.

(**) Zignago Vetro SpA + Verreries Brosse SAS.

The figures for **consolidated revenues** as at 31 December 2006 and 31 December 2005 are not objectively comparable (different scope of consolidation).

Breakdown (in € '000):

	2006	2005	%
Zignago Vetro SpA	135.935	125.086	8,7%
Verreries Brosse SAS and its subsidiary	36.325	30.931	17,4%
Vetri Speciali SpA and its subsidiaries	39.863	–	nmf
Total aggregate	212.123	156.017	36,0%
Elimination of intercompany sales	(2.696)	(714)	not given
Total consolidated revenues	209.427	155.303	34,9%

Group revenues outside Italy totaled €63,763 thousand. This figure is not objectively comparable to the one for 31 December 2005 (€48,421 thousand) and represents 30.4% of total revenues (31.2% as at 31 December 2005). They are broken down as follows (in € '000):

	2006	2005	%
Zignago Vetro SpA	19.083	18.326	4,1%
Verreries Brosse SAS and its subsidiary	35.562	30.095	18,2%
Vetri Speciali SpA and its subsidiaries	9.118	–	nmf
Consolidated total	63.763	48.421	31,7%

The Group was active on the following foreign markets (in € '000):

	2006	2005	%
European Union	40.706	35.485	14,7%
North America	10.473	9.599	9,1%
Other countries	12.584	3.337	nmf
Total	63.763	48.421	31,7%

Net income as at 31 December 2006 and 31 December 2005 is broken down as follows (in €'000):

	2006	2005	%
Zignago Vetro SpA	9.913	10.708	(7,4%)
Verreries Brosse SAS and its subsidiary	1.102	931	18,4%
Vetri Speciali SpA and its subsidiaries	4.319	–	nmf
Total aggregate	15.334	11.639	10,9%
Consolidation adjustments	81	214	nmf
Group's interest in net income	15.415	11.853	30,1%

Capital and financial structure

The balance sheet prepared in accordance with the IFRSs is illustrated on page 38 and relevant comments begin on page 60 of the Notes to the consolidated financial statements.

Consolidated shareholders' equity pertaining to the parent company as at 31 December 2006, inclusive of the year's net income, totaled €61,336 thousand (€89,660 thousand as at 31 December 2005). The decrease of €28,324 thousand over 31 December 2005 stems from the payment of dividends (– €41,401 thousand), net income for the year (+€15,415 thousand), the impact of consolidation of Vetri Speciali SpA (– €2,273 thousand), and other net negative changes (– €65 thousand).

The detailed breakdown of changes is illustrated on page 42.

Highlights of the Group's **capital and financial structure** as at 31 December 2006, as restated for operating purposes, are illustrated below and compared with the corresponding figures as at 31 December 2005 (different scope of consolidation):

	31.12.2006		31.12.2005		Change
	k euro	%	k euro	%	k euro
Trade receivables	50.281		41.344		8.937
Sundry receivables	3.715		2.255		1.460
Inventories	41.781		34.779		7.002
Current non-financial payables	(52.836)		(38.631)		(14.205)
A) Working capital	42.941	35,2%	39.747	50,4%	3.194
Net property, plant and equipment and intangible assets	66.282		60.543		5.739
Goodwill	34.772		–		34.772
Investments not consolidated on line-by-line basis	205		199		6
Other non-current financial assets	83		63		20
Provisions and non-current non-financial liabilities	(22.420)		(21.693)		(727)
B) Net fixed capital	78.922	64,8%	39.112	49,6%	39.810
A+B = Net invested capital	121.863	100,0%	78.859	100,0%	43.004
Financed by:					
Current financial liabilities	31.920		14.987		16.933
Cash and cash equivalents	(7.276)		(32.288)		25.012
Short-term net debt/(cash) position	24.644	20,2%	(17.301)	(21,9%)	41.945
Medium and long-term financial debt	35.883	29,5%	6.500	8,2%	29.383
C) Net debt (cash and cash equivalents)	60.527	49,7%	(10.801)	(13,7%)	71.328
Initial shareholders' equity	89.660		87.962		
Dividends paid out during the year	(41.401)		(10.000)		
Effect of consolidation of Vetri Speciali SpA	(2.273)		–		
Other changes in shareholders' equity	(65)		(155)		
Net income for the year	15.415		11.853		
D) Shareholders' equity at year-end	61.336	50,3%	89.660	113,7%	(28.324)
C+D = Total financial liabilities (cash and cashquivalents) and shareholders' equity	121.863	100,0%	78.859	100,0%	43.004

In **working capital,** the increase of receivables stemmed mainly from the changed scope of consolidation. In particular, using comparable data, the percentage increase of trade receivables is significantly lower than the increase in revenues, due to a reduction in the average number of days for collection.

Net fixed capital increased, rising from €39,112 thousand to €78,922 thousand in 2006. This was mainly due to the change in the scope of consolidation, following inclusion of the subsidiary Vetri Speciali SpA. On a comparable scope of consolidation, there was a significant decrease due to higher amortization and depreciation over capital expenditures made.

The **investments in property, plant and equipment** made by Group companies in 2006 totaled €16,694 thousand (€11,966 thousand in 2005).
In particular:

- **Zignago Vetro SpA** made investments of €10,901 thousand (€8,807 thousand in 2005), consisting principally of new plant, machinery, and equipment for €2,677 thousand, and the purchase of moulds and pallets for €7,883 thousand.
- **Verreries Brosse SAS** made new investments in property, plant and equipment totaling €4,608 thousand (€3,159 thousand in 2005), mainly for refurbishment of a furnace for automatic processing and a furnace for semi-automatic processing, in addition to improvement of the safety and quality of products and plants in general. New moulds were purchased for €1,062 thousand.
- The proportional part of investments made by **Vetri Speciali SpA and its subsidiaries**, totaling €1,185 thousand (€1,299 thousand in 2005) was mainly for improvement of plants and structures and new industrial equipment, including moulds and pallets.

As at 31 December 2006, the Group had 1,289 **employees.** As at 31 December 2005, they totaled 1,271 persons. All of the employees of Vetri Speciali were transferred to the Group. The breakdown of Group employees in 2006 is illustrated on page 88.

Net financial position as at 31 December 2006 showed debt in the amount of €60,527 thousand, compared with a net cash position of €10,801 thousand as at 31 December 2005. There was a negative change at Zignago Vetro SpA, which moved from a net financial position of €27,138 thousand to net debt of €16,473 thousand, after payment of €40,000 thousand in dividends during the year and acquisition of the shareholding in Vetri Speciali SpA for €21,471 thousand. The net debt of Verreries Brosse SAS decreased slightly (from €16,337 thousand to €15,963 thousand), mainly as a consequence of the growth in working capital. It should be pointed out that the change in the scope of consolidation, through the addition of Vetri Speciali SpA, resulted in €34,628 thousand in higher net debt as at 1 January 2006.

The **cash flows** that affected the consolidated capital structure as at 31 December 2006 from 31 December 2005, are as follows (in € '000):

Net financial assets at 31 December 2005			**10,801**
Internal financing:			
– Income for the year	15,415		
– Amortization and depreciation	22,111		
– Net use of accrued provisions	(4,436)		
– Impairment losses on receivables	195		
– Net gains realized on property, plant and equipment	83		
	33,368		
Decrease in working capital	3,228		
Net investments in property, plant and equipment	(15,299)		
Net investments in intangible assets	(229)		
Acquisition of Vetri Speciali	(21,471)		
Carrying value of property, plant and equipment sold	4,569		
	(29,202)		
Free cash flow		**4,166**	
Payment of dividends	(41,401)		
		(41,401)	
Increase in net financial debt			**(37,235)**
Cash acquired upon acquisition of Vetri Speciali			535
Net financial debt acquired upon acquisition of Vetri Speciali			(34,628)
Net financial debt at 31 December 2006			**(60,527)**

The statement of cash flows is illustrated on pages 40 and 41.

Research, Development, and Advertising

Research and development, which is dedicated to process and product innovation, led to the creation of lighter containers for the sector of normal glass for food and beverages and containers with innovative forms for the specialty glass and cosmetics and perfumery sectors.

Fees paid to the members of the Board of Directors and Statutory Auditors' Committee and to the General Managers

Board of Directors (in € '000)

Name and surname	Position	Term of office	Expiration of term	Emoluments for position in company that prepares financial statements	Non-cash benefits	Bonuses and other incentives	Other compen-sation
Franco Grisan	Chairman of the Board of Directors, Chief Executive Officer, and General Manager	2005-2007	Approval of 2007 financial statements	37,190	11,469	66,794	219,270
Nicolò Marzotto	Deputy Chairman of the Board of Directors	2005-2007	Approval of 2007 financial statements	10,330			
Marco Donà Dalle Rose	Director	2005-2007	Approval of 2007 financial statements	6,200			
Maurizio Guseo	Director	2005-2007	Approval of 2007 financial statements	6,200	8,163	47,869	98,354
Ovidio Dri	Director	2005-2007	Approval of 2007 financial statements	6,200	8,367	55,661	132,950
Maurizio Pizzolotto	Director	2005-2007	Approval of 2007 financial statements	6,200			
Giuseppe Breviari	Director	2005-2007	Approval of 2007 financial statements	6,200			

Statutory Auditors' Committee (in € '000)

Name and surname	Position held	Fees paid
Paolo Nicolai	Chairman	8,226
Carlo Pesce	Statutory Auditor	4,598
Andrea Dalla Vecchia	Statutory Auditor	2,870
Alessandro Bentsik	Substitute Statutory Auditor	–
Carmen Pezzuto	Substitute Statutory Auditor	–

Reconciliation of consolidated income for the year and shareholders' equity, with analogous values of the parent company

The following table is a summary reconciliation of the values of net income for the parent company and the relative consolidated values (in € '000):

	Net income at 31.12.2006	Shareholders' equity at 31.12:2006
Parent company's individual financial statements	**9.913**	**56.656**
Adjustments for compliance with accounting standards:		
- reclassification of assets from inventories to property, plant and equipment, net of associated tax effect	81	(169)
- consolidation adjustments for Verreries Brosse SAS	16	(37)
- write-off "Fond de Commerce" in Verreries Brosse SAS	–	(100)
- advance of taxes on pension fund in Verreries Brosse SAS	–	256
- other changes in Shareholders' Equity	–	44
	97	**(6)**
Carrying value of equity investments:		
Verreries Brosse SAS	–	(4.000)
Brosse USA Inc.	–	(200)
Vetri Speciali SpA	–	(21.471)
	–	**(25.671)**
Net income and shareholders' equity of subsidiaries:		
Verreries Brosse SAS	1.356	7.735
Brosse USA Inc.	(270)	272
Vetri Speciali SpA	4.319	22.350
	5.405	**30.357**
Consolidated Financial Statements	**15.415**	**61.336**

* * *

The results of the parent company and individual subsidiaries are examined and discussed on the following pages.

We remind the reader that, for the sake of greater clarity, figures on the financial performance and position of the parent company and its subsidiaries are shown according to the contribution each one makes to preparation of the Consolidated Financial Statements. They are shown in accordance with the customary criteria.

The accounting policies applied here are illustrated in the Notes, pages 44-59.

THE COMPANY

Zignago Vetro SpA

Registered office: Fossalta di Portogruaro (VE)
Business segment: hollow glass containers
Share capital: €8,000,000
Share owned by Zignago Holding SpA as at 31 December 2006: 100.00%; by Industrie Zignago Santa Margherita SpA as at 31 December 2005: 100.00%

In 2006, sales on the European market of hollow glass for “Food and Beverage” continued to register a positive trend.

In France, the demand for containers was stimulated by rising exports of wine and liquors. In Germany, the demand for glass containers rose both due to higher domestic consumption and increased exports. Demand rose in Great Britain as well, particularly in the cider, distillate, and wine markets. Conversely, FABs continued declining.

The global market of “Perfumery” continued the expansion reported in the first half of the year. Launches of new products increased, as well as revisions of existing bottles, by changing the outer packaging and decoration.

Demand also rose in the “Cosmetic” sector. The supply of products made by Asian manufacturers remained high in America, while it appeared to be lower in Europe due to lack in quality and inadequate services.

In Italy, the consumption of wine bottles continued growing, stimulated by exports. The demand for olive oil containers rose from 2005, while the demand for food containers remained buoyant.

The **income statement** is as follows:

	2006		2005		Change
	k euro	%	k euro	%	%
Net revenues	135.935	–	125.086	–	8,7%
Change in finished products, semi-finished products and work-in-progress inventories	2.278	–	3.089	–	nmf
Value of production	138.213	100,0%	128.175	100,0%	7,8%
Costs of materials and outside services	(79.327)	(57,4%)	(73.156)	(57,1%)	8,4%
Value added	58.886	42,6%	55.019	42,9%	7,0%
Payroll & employee benefits	(24.492)	(17,7%)	(23.574)	(18,4%)	3,9%
EBITDA	34.394	24,9%	31.445	24,5%	9,4%
Depreciation and amortization	(14.878)	(10,8%)	(15.538)	(12,1%)	(4,2%)
Provisions & write-downs	(201)	(0,1%)	(201)	(0,2%)	–
EBIT	19.315	14,0%	15.706	12,3%	23,0%
Net recurring non-operating income	12	–	2.105	1,6%	(99,4%)
Net non-recurring costs	(1.487)	(1,1%)	–	–	nmf
Operating income	17.840	12,9%	17.811	13,8%	0,2%
Net financial income	24	–	394	0,3%	(93,9%)
Net exchange-rate differences	27	–	(61)	–	nmf
Income before taxes	17.891	12,9%	18.144	14,2%	(1,4%)
Income taxes and IRAP	(7.978)	(5,7%)	(7.264)	(5,6%)	9,8%
(at 31 December 2006: 44.6%)					
(at 31 December 2005: 40.0%)					
Net income	9.913	7,2%	10.880	8,5%	(8,9%)

Net revenues totaled €135,935 thousand, up 8.7% over the previous year. Sales of glass containers and accessories (with the latter representing the service offered by Zignago Vetro SpA to the market) totaled €123,214 thousand, up 9.3%.

Exports rose by 9.6%, and represented 16.3% of the revenues generated by containers and accessories (16.3% in 2005).

In particular:

Revenues by business segment

	2006	2005	%
Glass containers and accessories	123,214	112,727	9,3%
Sundry materials	8,868	8,658	2,4%
Services	3,853	3,701	4,1%
Total	135,935	125,086	8,7%

Revenues by geographical area, excluding other materials and services

	2006	2005	%
Italy	103.130	94.401	9,2%
European Union (excluding Italy)	13.336	11.654	14,4%
Europe - other countries	1.298	948	36,9%
North America	2.417	3.036	(20,4%)
Other countries	3.032	2.689	12,8%
Total	123.213	112.728	9,3%
of which exports	20.083	18.327	9,6%
%	16,3%	16,3%	

The value of production, €138,213 thousand (€128,175 thousand in 2005), is greater than net revenues due to the effect of changes in inventories.

The ratio of costs of materials and outside services to the value of production decreased from 57.4% to 57.1%, mainly due to the increase in energy costs.

Payroll & employee benefits increased by a total of 3.9%, due to an increase in the average hourly cost of labor and higher number of hours worked.

EBITDA totaled €34,394 thousand in 2006, compared with €31,445 thousand in 2005. This translates into a 9.4% increase and 24.9% of the value of production (24.5% in 2005).

Depreciation and amortization during the year contracted by 4.2%, with the ratio to value of production contracting from 12.1% to 10.8%.

EBIT during the year was 23% higher than in the previous year and translates into 14% of the value of production (12.3% in 2005).

Non-operating recurring income largely reflects incidental income based on audits carried out during preparation of the financial statements. The previous year mainly reflected incidental income for the release of risk reserves in the amount of €1,623 thousand, due to the elimination of liabilities that had caused those reserves to be accrued.

Non-recurring costs for the year (€1,487 thousand) reflect professional services provided for the previously illustrated listing of the Company.

Net financial income totaled €24 thousand (€394 thousand as at 31 December 2005), with up to €296 thousand of the decrease being accounted for by marking a commodity swap to market, while the reduction is generally associated with the lower level of cash available on average for the year.

Income before taxes, €17,891 thousand, was down by 1.4% compared with the €18,144 thousand reported for the previous year (up by 17.3% on the basis of comparable figures, considering the non-operating income recognized in 2005 and non-recurring costs recognized in 2006, as previously illustrated).

The year ended with net income of €9,913 thousand (€10,880 thousand in 2005) after accruing €7,978 thousand in provisions for taxes, against €7,264 thousand in 2005 (respectively 44.6% and 40% on pre-tax income). The different impact of taxes on pre-tax income stems principally from the tax-exempt nature of the aforementioned incidental income for 2005 resulting from the release of the reserve, against which no deferred tax liabilities had been recognized.

Cash flow (amortization & depreciation + comparable income for the year) in 2006 was €24,791 thousand (€26,418 thousand in 2005).

The **balance sheet** as at 31 December 2006 and 31 December 2005 is as follows:

	31.12.2006		31.12.2005		Change
	k euro	%	k euro	%	k euro
Trade receivables	31.993		31.968		25
Sundry receivables	1.624		1.651		(27)
Inventories	28.271		26.268		2.003
Current non-financial payables	(37.335)		(31.595)		(5.740)
A) Working capital	24.553	33,6%	28.292	38,8%	(3.739)
Net property, plant and equipment and intangible assets	39.352		47.932		(8.580)
Investments	25.670		4.199		21.471
Provisions and non-current non-financial liabilities	(16.568)		(20.818)		4.250
B) Net fixed capital	48.454	66,4%	31.313	52,5%	17.141
A+B = Net invested capital	73.007	100,0%	59.605	100,0%	13.402
Financed by:					
Current financial liabilities	9.834		4.460		5.374
Cash and cash equivalents	(5.423)		(31.598)		26.175
Short-term net debt/(cash) position	4.411	6,0%	(27.138)	(45,5%)	31.549
Medium and long-term financial debt	11.940	21,1%	–	0,0%	11.940
C) Net debt (cash and cash equivalents)	16.351	22,4%	(27.138)	(45,5%)	43.489
Initial shareholders' equity	86.743		85.863		880
Dividends paid out during the year	(40.000)		(10.000)		(30.000)
Net income for the year	9.913		10.880		(967)
D) Shareholders' equity at year-end	56.656	77,6%	86.743	145,5%	(30.087)
C+D = Total financial liabilities (cash and cash equivalents) and shareholders' equity	73.007	100,0%	59.605	100,0%	13.402

Working capital decreased by €3,739 thousand (– 13.2%) over 2005. Trade and sundry receivables were stable overall, against revenues that were up by 8.7%. Inventories increased, reflecting higher sales volumes. Current non-financial payables also increased, mainly for provisions of services to be paid in 2007.

Inventories of finished products increased in 2006 from the previous year by 10.1% in terms of value and 10.3% in terms of quantity. In terms of volume, the product inventory for the year equaled 2.8 months of sales (2.7 as at 31 December 2005).

Net fixed capital increased by €17,141 compared with the previous year thousand due to the combined effect of amortization and depreciation accrued in 2006 exceeding the value of net investments in property, plant and equipment and intangible assets, the increase in investments following purchase of 43.50% of Vetri Speciali SpA, as previously illustrated, and accruals to provisions for deferred tax liabilities and risks and liabilities that were lower than utilization.

Net invested capital consequently increased during the year by €13,402 thousand.

The €30,087 thousand reduction in shareholders' equity stemmed from payment of €40,000 thousand in dividends, net of the €9,913 thousand in income for the year.

Net debt totaled €16,351 thousand as at 31 December 2006 due to these events (the net financial position as at 31 December 2005 was a positive €27,138 thousand).

Investments in property, plant and equipment totaled €10,858 thousand (€8,785 thousand in 2005), including new plant, machinery, and equipment for €2,677 thousand, moulds and pallets for €7,883 thousand, remodeling of buildings and other assets for €229 thousand, and assets under construction for €68 thousand.

As at 31 December 2006, the Company had 574 employees, including: 9 senior managers, 129 white-collar employees, and 436 blue-collar employees. Eleven workers were temporary employees.
As at 31 December 2005, the Company had 572 employees, including: 7 senior managers, 126 white-collar employees, and 439 blue-collar employees. There were 13 temporary employees.

Both the domestic and the European market continued to grow in the first month of 2007, permitting partial recovery of increased energy costs through higher prices.

* * *

In fulfillment of the requirements resulting from the application for public listing as approved on 22 December 2006, as previously mentioned, Zignago Vetro SpA submitted its application on 12 January 2007 for listing of its ordinary shares on the Mercato Telematico Azionario, STAR segment, which is organized and managed by Borsa Italiana SpA.

SUBSIDIARIES

Verreries Brosse SAS

Registered office: Vieux-Rouen-sur-Bresle, France
Business segment: glass bottles for high-end Perfumery

Chairman and General Manager: Giuseppe Breviari

Board of Directors: Luciano Albanese
Marc Cooper
Alberto Faggion
Franco Grisan

Verreries Brosse SAS sells its products directly in the United States of America, relying on the commercial support of its wholly owned subsidiary Brosse USA Inc.

In 2006, the ”high-end Perfumery” market in **Europe** continued to grow, confirming the trend reported at the end of 2005. Consumption in East European countries rose significantly, particularly in Russia.

Interest in the launch of new products was renewed, particular by large customers operating on multinational markets.

The **American market** continued expanding at a brisk pace, with a high number of new product launches and restocking. Demand on this market is characterized by the need to react quickly and flexibly along with an expanding supply of products.

In this context, Verreries Brosse SAS improved its market position with the support of its sales subsidiary.

Highlights of the **Consolidated Income Statement** are illustrated in the following table, with comparable data for 2005:

	2006		2005		Change
	k euro	%	k euro	%	%
Net revenues	36.325	–	30.931	–	17,4%
Change in finished products, semi-finished products and work-in-progress inventories	208	–	999	–	nmf
Enhancement of asset value as a result of in-house work	120	–	–	–	nmf
Value of production	36.653	100,0%	31.930	100,0%	14,8%
Costs of materials and outside services	(17.990)	(49,1%)	(14.823)	(46,4%)	21,4%
Value added	18.663	50,9%	17.107	53,6%	9,1%
Payroll & employee benefits	(12.497)	(34,1%)	(11.886)	(37,2%)	5,1%
EBITDA	6.166	16,8%	5.221	16,4%	18,1%
Depreciation and amortization	(3.510)	(9,6%)	(3.079)	(9,6%)	14,0%
Provisions & write-downs	(151)	(0,4%)	(129)	(0,4%)	17,1%
EBIT	2.505	6,9%	2.013	6,3%	24,4%
Net recurring non-operating income (expenses)	(6)	–	66	nmf	nmf
Operating income	2.499	6,8%	2.079	6,4%	20,2%
Net financial income	(629)	(1,7%)	(460)	(1,4%)	36,7%
Net exchange-rate differences	(65)	(0,2%)	(104)	(0,3%)	(37,5%)
Income before taxes	1.805	4,9%	1.515	4,7%	19,1%
Income taxes and IRAP (at 31 December 2006: 38,.9%) (at 31 December 2005: 35.8%)	(703)	(1,9%)	(542)	(1,7%)	29,7%
Net income for the year	1.102	3,0%	973	3,0%	13,3%

Net revenues totaled €36,325 thousand (€30,931 thousand in 2005; + 17.4%). Sales of glass containers totaled €34,769 thousand (€30,068 thousand in 2005; + 15.6%). Exports totaled 55.6% (50.0% in 2005) of net revenues.

Revenues by geographical area

	2006	2005
Europe	30.191	23.719
North America	5.865	6.563
Other countries	269	649
Total	36.325	30.931

The value of production, €36,653 thousand (€31,930 thousand in 2005; + 14.8 %), is higher than the sales and service revenues due to the increase of €208 thousand in finished product inventories (+ €999 thousand in 2005).

The ratio of costs of materials and outside services and payroll & employee benefits to the value of production decreased (aggregate total 83.2% in 2006 and 83.7% in 2005), notwithstanding the increase in energy costs, outsourced processing, and higher costs connected with changes in the cost of labor.

Amortization and depreciation increased by 14.0%, corresponding to the new non-current assets that became operational.

Net financial expenses for 2006 increased by 36.7% over the previous year, mainly due to the increased cost of money recorded during 2006, notwithstanding lower average debt. They represent 1.7% of the value of production (1.4% in 2005).

The financial year ended with net income of €1,102 thousand (€973 thousand in 2005; + 13.3%), after charging €703 thousand for income taxes (€542 thousand in 2005; + 29.7%).

Cash flow (amortization & depreciation + income for the year) totaled €4,612 thousand (€4,052 thousand in 2005; + 13.8%).

The **consolidated capital and financial structure** as at 31 December 2006 and 31 December 2005 is as follows:

	31.12.2006		31.12.2005		Change
	k euro	%	k euro	%	k euro
Trade receivables	10.401		9.435		966
Sundry receivables	1.024		667		357
Inventories	8.968		8.511		457
Current non-financial payables	(8.441)		(6.304)		(2.137)
Payables to suppliers of capital goods	(620)		(791)		171
A) Working capital	11.332	47,3%	11.518	49,9%	(186)
Net property, plant and equipment and intangible assets	13.425		12.611		814
Provisions and non-current non-financial payables	(824)		(875)		51
B) Net fixed capital	12.601	52,7%	11.736	50,5%	865
A+B = Net invested capital	23.933	100,0%	23.254	100,0%	679
Financed by:					
Current financial liabilities	13.579		10.527		3.052
Cash and cash equivalents	(1.516)		(690)		(826)
Short-term net debt position	12.063	50,4%	9.837	42,3%	2.226
Medium and long-term financial debt	3.900	16,3%	6.500	28,0%	(2.600)
C) Net debt	15.963	66,7%	16.337	70,3%	(374)
Initial shareholders’ equity	6.917		5.864		
Other changes in shareholders’ equity	(49)		80		
Net income for the year	1.102		973		
D) Shareholders’ equity at year-end	7.970	33,3%	6.917	29,7%	1.053
C+D = Total financial liabilities and shareholders’ equity	23.933	100,0%	23.254	100,0%	679

Trade receivables (+ 10.2% as at 31 December 2006 above 2005) represent 28.6 % of net revenues, as opposed to 30.6% as at 31 December 2005. This value was impacted by collections from certain customers in 2007 of amounts due at 31 December 2006.

The amount of inventories increased by €457 thousand, due particularly to the higher average unit value of bottles on stock as at 31 December 2006 as compared with the situation as at 31 December 2005.

In terms of volumes, finished product inventories equaled 3.5 months of sales (4.2 in 2005).

The €2,137 thousand increase in current non-financial payables reflected the increased level of activity in 2006 compared with 2005, particularly at the end of the year.

Group net debt decreased from €16,337 thousand as at 31 December 2005 to €15,963 thousand as at 31 December 2006 (– €374 thousand), with a reduction of €186 thousand in working capital and an increase of €865 thousand in fixed capital.

In particular, medium and long-term financial debt is represented by a bank loan, net of the current installment, granted to cover investments and with a final due date of 30 June 2009.

Investments in property, plant and equipment and intangible assets are broken down as follows:

	2006	2005
Period investments		
Land and buildings	56	36
Plant and machinery	4.154	2.105
Equipment	203	711
Intangible assets	140	32
Total	4.553	2.884

Investments in plant and machinery are largely represented by the refurbishment of the furnace for automatic production and a furnace for semi-automatic production, as well as qualitative improvement of products and plant safety in general. The new moulds totaled €1,062 thousand (€1,139 thousand in 2005).

In implementation of the "Emission Trading Directive," the quotas assigned for carbon dioxide emission rights were recognized at their market value on 31 December 2006, €128 thousand.

The Group had 290 employees as at 31 December 2006, including 10 temporary employees and six part-time employees (288 employees as at 31 December 2005).

The demand for eau de toilette bottles increased during the first month of 2007.
Sales of large containers produced on a semi-automatic basis rose, due in part to the expansion of our production capacity in 2006.
Average sales prices are expected to rise compared with 2006. Nevertheless, production costs will be indirectly influenced by changes in energy costs.
We believe that the operating results for 2007 will mark an improvement over 2006.

Vetri Speciali SpA

Registered office: Via Manci, 5 – Trento, Italy
Business segment: specialty glass containers

Chairman:	Stefano Marzotto
Vice Chairman:	Vitaliano Torno
Chief Executive Officer:	Giorgio Mazzer
Directors:	Luca Marzotto
	Andrea Mazzoni
Statutory Auditors:	Giuseppe Rovero
	Giuseppe Baratella
	Franco Corgnati

Vetri Speciali SpA controls two commercial companies:

- Vetri Speciali Inc.,
  registered office in Benicia, California, USA (100% of share capital)
- Vetri Speciali Iberica S.L.,
  registered office in Barcelona, Spain (100% of share capital)

Demand for specialty glass containers on the domestic and international markets where the Company operates remained healthy increasing in 2006 compared with 2005.

However, the operating result was impacted by the significant increase in energy costs.

Following the company merger carried out in 2005, integration of production activities was nearly completed. Full use of the production capacity of all plants and related structures permit extremely significant synergies.

As they satisfied accounting and regulatory requirements, the consolidated financial statements as at 31 December 2006 and 31 December 2005 of Vetri Speciali SpA and its subsidiaries have been prepared in accordance with the IFRSs, as issued by the International Accounting Standard Board and endorsed by the European Commission.

The **Consolidated Income Statement** of Vetri Speciali for the years that ended on 31 December 2006 and 31 December 2005 were as follows for the share owned by Zignago Vetro S.p.A. (43.5%):

	2006 (43.5%)		2005 (43.5%)		Change
	k euro	%	k euro	%	%
Net revenues	39.863	–	38.156	–	4,5%
Change in semi-finished products, finished products and work-in-progress inventories	(745)	–	(1.192)	–	nmf
Value of production	39.118	100,0%	36.964	100,0%	5,8%
Cost of materials and outside services	(17.869)	(45,7%)	(15.855)	(42,9%)	12,7%
Added value	21.249	54,3%	21.109	57,1%	0,7%
Payroll & emplyee benefits	(8.069)	(20,6%)	(7.535)	(20,4%)	7,1%
EBITDA	13.180	33,7%	13.574	36,7%	(2,9%)
Depreciation and amortization	(3.723)	(9,5%)	(3.785)	(10,2%)	(1,6%)
Provisions & writedowns	(85)	(0,2%)	(96)	(0,3%)	(11,5%)
EBIT	9.372	24,0%	9.693	26,2%	(3,3%)
Net recurring non-operating income (expenses)	69	0,3%	275	0,7%	(74,9%)
Operating income	9.441	24,1%	9.968	27,0%	(5,3%)
Net financial expenses	(1.515)	(3,9%)	(1.217)	(3,3%)	24,5%
Net exchange-rate differences	(18)	–	5	–	nmf
Income before corporate income tax and IRAP	7.908	20,2%	8.756	23,7%	(9,7%)
Income tax and IRAP (at 31 December 2006: 45.4%) (at 31 December 2005: 40.0%)	(3.589)	(9,2%)	(3.504)	(9,5%)	nmf
Net income for the year	4.319	11,0%	5.252	14,2%	(17,8%)

Net consolidated income for 2006 totaled €39,863 thousand, up 4.5% compared with the €38,156 thousand in the previous year.

Considering the indirect share realized through distributors, exports represented approximately 29% of revenues. Direct exports instead totaled 21.8% of total revenues (22.5% in 2005).

The Group operated on the following foreign markets (in € '000, for the Group's share):

	2006	2005	%
European Union countries	5.503	5.112	7,6%
Other European countries	417	540	(22,8%)
North America	2.191	2.286	(4,2%)
Other countries	1.012	665	52,2%
Total	9.123	8.603	6,0%

The Group's share in the cost of materials and outside services totaled €17,869 thousand, 12.7% more than in 2005 (€15,855 thousand), mainly due to higher energy costs (+ 20%). They represent 45.7% of the value of production, compared with 42.9% in 2005.

The Group's share in payroll and employee benefits for the year increased by 7.1% vs. 2005 due to the higher number of hours worked (+ 3.6%) and the increased average hourly cost of labor.

Amortization and depreciation accrued for 2006 totaled €3,723 thousand, 1.6% less than in the previous year.

The Group's share in financial expenses for the year increased by 24.5%, mainly as a result of the effective interest rate method applied on existing loans, as envisaged by international accounting standards.

The Group's share in income tax for the year, €3,589 thousand, equaled 45.4% of pre-tax income (40% in 2005).

The Group's share in consolidated net income for the year was €4,319 thousand, compared with €5,252 thousand in the previous year.

The **consolidated capital and financial structure** as at 31 December 2006 and 31 December 2005 was as follows for the share of Zignago Vetro SpA (43.50%):

	31.12.2006 (43.50%)		31.12.2005 (43.50%)		Change
	k euro	%	k euro	%	k euro
Trade receivables	8.334		8.566		(232)
Sundry receivables	1.051		750		301
Inventories	4.810		5.708		(898)
Current non-financial payables	(7.109)		(6.807)		(302)
A) Working capital	7.086	14,0%	8.217	15,4%	(1.131)
Net property, plant and equipment and intangible assets	13.633		16.060		(2.427)
Goodwill	34.772		34.772		–
Investments	6		6		0
Provisions and non-current non-financial liabilities	(5.056)		(5.579)		523
B) Net fixed capital	43.355	86,0%	45.259	84,6%	(1.904)
A+B = Net invested capital	50.441	100,0%	53.476	100,0%	(3.035)
Financed by:					
Current financial liabilities	8.507		8.435		72
Cash and cash equivalents	(459)		(535)		76
Short-term net debt	8.048	16,0%	7.900	14,8%	148
Medium and long-term financial debt	20.043	39,7%	26.193	49,0%	(6.150)
C) Net borrowings	28.091	55,7%	34.093	63,8%	(6.002)
Initial shareholders' equity	19.383		14.407		
Dividends paid out during the period	(1.401)		–		
Other changes in shareholders' equity	49		(276)		
Net income for the year	4.319		5.252		
D) Shareholders' equity at end of year	22.350	44,3%	19.383	36,2%	2.967
C+D= Total financial liabilties and shareholders' equity	50.441	100,0%	53.476	100,0%	(3.035)

The Group's share in trade receivables as at 31 December 2006 showed a 2.7% decrease against a 4.5% increase in revenues.

The Group's share in inventories as at 31 December 2006 decreased by 15.7%, in connection with higher sale volumes, particularly during the last part of the year.

The Group's share in net non-current assets decreased due to the effects of amortization and depreciation accrued during the year, which exceeded the investments made in property, plant and equipment (€1,250 thousand).

The Group's share in net invested capital as at 31 December 2006 totaled €50,441 thousand, down by 5.7% from the €53,476 thousand reported as at 31 December 2005.

After payment of €1,401 thousand in dividends, the Group's share in net debt as at 31 December 2006 totaled €28.091 thousand, down by €6,002 thousand (– 17.6%) vs. 31 December 2005. This figure includes payables to leasing companies for a total of €3,836 thousand (€4,367 thousand as at 31 December 2005). The Group's share in medium-term loans decreased during the year to €20,043 thousand (– €6,150 thousand; – 23.5%).

As at 31 December 2006, the Group had a total of 185 employees (3 senior managers, 42 administrative, technical and commercial employees, and 140 blue-collar employees), representing an increase of six persons over 31 December 2005.

The year started with growth in shipments from the same period of the previous year. Signed agreements and received orders offer the prospect of results consistent with the previous fiscal year.

PROPOSED RESOLUTIONS FOR THE SHAREHOLDERS' MEETING OF ZIGNAGO VETRO SpA

Proposals for shareholder resolutions approved by Board of Directors meeting of Zignago Vetro SpA. in its meeting of 13 February 2007 are as follows.

"To Our Shareholders,

We trust that you will agree with the principles that we followed in preparing the financial statements for the financial year as at 31 December 2006 and we request that you approve them.

We propose allocating earnings for the year of €9,739,684 as follows:

– to the legal reserve in the amount of 5%	€486,985
– to dividends, a total of at the rate of €0.11 per share for the 80,000,000 eligible ordinary shares	€8,800,000
– to retained earnings, the remainder of after which this reserve will total €5,344,163	€452,699
	€9,739,684

"

Fossalta di Portogruaro, 13 February 2007

THE BOARD OF DIRECTORS

2006
Consolidated Annual Report

Financial Statements

Zignago Vetro Group

Consolidated Balance Sheet

(in € '000)	Note	31.12.2006	31.12.2005
ASSETS			
Non-current assets			
Property, plant and equipment	1	66,068	60,305
Goodwill	2	34,772	0
Intangible assets	3	214	238
Investments in associates	4	205	199
Other non-current assets	5	83	63
Deferred tax assets	6	1,284	1,196
Total non-current assets		**102,626**	**62,001**
Current assets			
Inventories	7	41,781	34,779
Trade receivables	8	50,281	41,344
Other current assets	9	760	300
Receivables for current taxes	10	1,671	759
Securities	11	49	2,500
Cash and cash equivalents	12	7,227	29,788
Total current assets		**101,769**	**109,470**
Total assets		**204,395**	**171,471**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital		8,000	4,132
Reserves		34,200	38,833
Retained earnings		3,721	34,842
Net income		15,415	11,853
Total shareholders' equity	13	**61,336**	**89,660**
LIABILITIES			
Non-current liabilities			
Provisions for risks and liabilities	14	1,562	1,949
Post-employment benefits	15	9,894	6,752
Medium to long-term borrowings	16	35,883	6,500
Other non-current liabilities	17	153	0
Deferred tax liabilities	18	10,811	12,992
Total non-current liabilities		**58,303**	**28,193**
Current liabilities			
Bank borrowings and current share of medium to long-term borrowings	19	31,920	14,987
Trade payables	20	36,796	28,268
Other current liabilities	21	9,969	6,944
Payables for current taxes	22	6,071	3,419
Total current liabilities		**84,756**	**53,618**
Total liabilities		**143,059**	**81,811**
Total liabilities and shareholders' equity		**204,395**	**171,471**

Zignago Vetro Group

Consolidated Income Statement

(in € '000)	Note	2006	2005
Revenues	23	**209,427**	**155,303**
Costs for raw & ancillary materials, consumables, and merchandise	24	(52,552)	(38,891)
Costs for services	25	(58,631)	(43,358)
Payroll & employee benefits	26	(45,058)	(35,461)
Amortization, depreciation and impairment losses	27	(22,111)	(18,617)
Other operating costs	28	(2,346)	(1,717)
Other operating income	29	1,136	2,631
Operating income		**29,865**	**19,890**
Financial income	30	667	510
Financial expenses	31	(2,787)	(576)
Net exchange losses		(56)	(165)
Income before taxes		**27,689**	**19,659**
Income taxes	32	(12,274)	(7,806)
Group net income		**15,415**	**11,853**
Per share:			
Base (and diluted) earnings per share		**0.19**	**0.15**

Zignago Vetro Group

Consolidated Statement of Cash Flows

(in € '000)	2006	2005
CASH FLOW FROM OPERATING ACTIVITIES:		
Group Net income	**15,415**	**11,853**
Adjustments to reconcile net income with cash flows generated by operations:		
Amortization, depreciation, and impairment losses	22,111	18,617
Net gains from disposal of property, plant and equipment	83	(431)
Write-down of receivables	195	144
Accruals (uses) of provision for deferred tax liabilities/assets	(4,554)	(567)
Net post-employment benefits accrued during year	581	660
Net change in other reserves	(463)	(1,814)
Changes in operating assets and liabilities:		
Trade receivables	(507)	(2,888)
Other current assets	(141)	115
Receivables for current taxes	(723)	725
Inventories	(1,607)	(4,588)
Trade payables	3,072	2,799
Other current liabilities	1,239	676
Payables for current taxes	2,156	(1,675)
Other non-current assets and liabilities	(261)	80
Total adjustments and changes	**21,181**	**11,853**
Net cash flow from operating activities	**36,596**	**23,706**
CASH FLOW FROM INVESTING ACTIVITIES:		
Investments in intangible assets	(229)	(63)
Investments in property, plant and equipment, including repayment installments of finance lease contracts	(15,299)	(19,179)
Investments in non-current financial assets	0	15
Acquisition of shareholding in Vetri Speciali	(21,471)	0
Investments in securities	(49)	0
Disposal price of securities	2,500	0
Disposal price of property, plant and equipment	4,569	4,162
Net cash flow absorbed by investing activity	**(29,979)**	**(15,065)**
CASH FLOW FROM FINANCING ACTIVITIES:		
Net change in short-term bank borrowings	5,498	8,352
New medium and long-term borrowings	14,940	0
Reimbursement of medium and long-term borrowings	(8,750)	(2,600)
Payment of dividends	(41,401)	(10,000)
Net cash flow absorbed by financing activities	**(29,713)**	**(4,248)**
Increase/(decrease) in cash and cash equivalents	**(23,096)**	**4,393**
Initial cash and cash equivalents (1)	**30,323**	**25,395**
Cash and cash equivalents at year-end	**7,227**	**29,788**

(1) Including E535 thousand from acquisition of Vetri Speciali.

Supplementary information:

(in € '000)	31.12.2006	31.12.2005
Interest paid	2,069	576
Income taxes paid	15,423	9,001

Net financial position

(in € '000)	31.12.2006	31.12.2005
Cash and cash equivalents	(7,227)	(29,788)
Securities	(49)	(2.500)
Bank and other borrowings	31,920	14,987
Medium to long-term borrowings	35,883	6,500
Total	**60,527**	**(10,801)**

Statement of Changes in Consolidated Shareholders' Equity

(in € '000)	Share capital	Legal reserve	Revalua-tion reserve	Other reserves	Transla-tion reserve	Retained earnings	Net income (loss)	Total Conso-lidated Shareh-olders' Equity
Balance as at 1 January 2006	**4,132**	**826**	**31,202**	**6,960**	**(155)**	**34,842**	**11,853**	**89,660**
Consolidation effect of Vetri Speciali					(10)	(2,263)		(2,273)
Allocation of income						(9,548)	(11,853)	(21,401)
Distribution of reserves				(690)		(19,310)		(20,000)
Capital increase through transfer of reserves	3,868		(3,868)					0
Translation difference					(65)			(65)
Net income (loss) for the year							15,415	15,415
Balance as at 31 December 2006	**8,000**	**826**	**27,334**	**6,270**	**(230)**	**3,721**	**15,415**	**61,336**

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Consolidated Annual Report

Notes to the Consolidated Financial Statements

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS) USED TO PREPARE THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2006

Introduction

As previously mentioned on page 8, the Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 were prepared in accordance with the IFRSs, pursuant to the option envisaged in Italian legislative decree 38/2005. The notes include the information normally required by applicable laws and regulations and accounting standards, which are detailed as necessary in reference to the financial statement formats used herein.

The Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 were also prepared for inclusion in the prospectus required for listing of the ordinary stock of Zignago Vetro SpA on the Mercato Telematico Azionario, STAR Segment, organized and managed by Borsa Italiana SpA.

The Consolidated Financial Statements as at 31 December 2005 were the first Group financial statements prepared in accordance with the IFRSs.

For comparison of the financial figures as at 31 December 2006 and 31 December 2005, the scope of consolidation of the Zignago Vetro Group as at 31 December 2006 and 31 December 2005 was as follows:

- Zignago Vetro S.p.A. (parent company)
- consolidated on a **100% line-by-line basis**, on the financial statements as at 31 December 2006 and 31 December 2005:
  - Verreries Brosse SAS ad its subsidiary:
    - Brosse USA Inc.
- consolidated on a **proportional line-by-line basis**, for the 43.5% shareholding, on the financial statements as at 31 December 2006:
  - Vetri Speciali SpA and its subsidiaries:
    - Vetri Speciali Inc.
    - Vetri Speciali Iberica S.L.

In October 2004, the scope of consolidation changed, when the parent company, Industrie Zignago Santa Margherita SpA (IZSM), completed a process of corporate reorganization by acquiring 43.5% of the capital of Vetri Speciali SpA, the parent company of three production companies (which were merged at the beginning of 2005) and two sales companies.

Report preparation criteria

The Consolidated Financial Statements of the Zignago Group as at 31 December 2006 have been prepared in accordance with the historical cost principle, except for investments in financial assets and derivative instruments, which have been recognized at their fair value.

Statement of compliance with the IFRSs

The consolidated financial information as at 31 December 2006 and 31 December 2005 and for the periods closed on those dates has been prepared in compliance with the IFRSs.

Accounting standards

The accounting standards applied for all periods considered by these financial statements are uniform, including recognition of the financial instruments whose accounting treatment is governed by IAS 32 and 39. The Group has exercised the option envisaged by IFRS 1 and selected 1 January 2005 as the transition date for initial application of IASs 32 and 39.

In order to facilitate reading, the Consolidated Financial Statements and Directors' Report on Operations are presented with the values of the balance sheet, income statement, and relevant comments expressed in thousands of euros.

Methods used to prepare the Consolidated Financial Statements

Acquisition by Zignago Vetro of the shareholding owned by the parent company IZSM in Vetri Speciali on 30 June 2006, as described in the Directors' Report on Operations, represents a transaction under common control pursuant to IFRS 3, i.e. a business combination where all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory in nature.

The accounting treatment of such transactions is not currently governed by the IFRS. Therefore, in compliance with the IFRSs, reference was made to a body of "similar" accounting standards. In this specific case, reference was also made to U.S. GAAP and the criteria envisaged by those principles, which state that such operations be recognized on the financial statements of the company resulting from the combination by using the historical values prior to the combination. The reason is that in a transaction between entities under common control, it is impossible to define objective current values. The higher amount paid for the acquisition with respect to historical values is handled as a payment of dividends.

Therefore, in this specific case, the consolidated figures reflect the amounts reported on the financial statements of IZSM in reference to the aforementioned companies Zignago Vetro and Vetri Speciali.

Consolidation area and policies

The principles applied during the consolidation process include:

– elimination of the investment account following acquisition of the assets and liabilities of the subsidiaries and associated companies, according to the 100% or proportional line-by-line consolidation methods;
– separate recognition of any minority interest in shareholders' equity;
– elimination of all intercompany transactions, and thus payables, receivables, sales, purchases, and gains and losses not realized with third parties;
– the financial statements of the subsidiaries used for preparation of the consolidated financial statements are those approved by the respective boards of directors, which will be submitted to the respective shareholders' meeting for approval. The closing date of the financial statements of the consolidated companies is the same as that of the parent company. The financial statements of the consolidated companies are adjusted, if necessary, to make them consistent with the accounting standards used by the parent company, which comply with the IFRSs endorsed by the European Union.

If the acquisition value of investments exceeds the pro-rate value of the subsidiaries' equity, the positive difference is recognized under assets whenever possible (e.g. it can be used to increase the value of the non-current assets themselves, but within the limits of their market value, and amortized according to their residual useful life), and the residual amount is recognized in an asset account named "goodwill." The value of goodwill is not amortized but at least annually audited to determine any impairment and adjustment when events or changed situations indicate that the carrying value cannot be realized. Goodwill is recognized at cost net of impairment losses.

If the carrying value of the investments is lower than the pro-rate value of the subsidiaries' equity, the negative difference is recognized on the income statement.

The companies included in the Consolidated Financial Statements as at 31 December 2006 and 31 December 2005 are listed in the following table:

Consolidated Companies	Registered office	Share capital (in local currency)	Group's interest in equity
Zignago Vetro SpA (parent company)	Fossalta di Portogruaro (VE)	8,000,000	–
Consolidated Financial Statements at 31 December 2006			
Companies consolidated on a 100% line-by-line basis			
Verreries Brosse SAS	Vieux-Rouen-sur-Bresle, France	4,000,000	100.00%
Brosse USA Inc.	New Jersey, U.S.A.	USD 10,000	100.00%
Companies consolidated on a proportional line-by-line basis			
Vetri Speciali S.p.A.	Trento (TN)	10,062,400	43.50%
Vetri Speciali Inc.	Benicia, California, U.S.A.	USD 100,000	43.50%
Vetri Speciali Iberica S.L.	Barcelona, Spain	3,006	43.50%
Consolidated Financial Statements at 31 December 2005			
Companies consolidated on a 100% line-by-line basis			
Verreries Brosse SAS	Vieux-Rouen-sur-Bresle, France	4,000,000	100.00%
Brosse USA Inc.	New Jersey, U.S.A.	USD 10,000	100.00%

The main changes in the scope of consolidation during the fiscal year that ended 31 December 2006 are illustrated as follows:

– acquisition from the parent company Industrie Zignago Santa Margherita S.p.A. of the equity investment owned by that company in the share capital of Vetri Speciali S.p.A. (43.5%) on 30 June 2006, with settlement of the payment in cash on 27 September 2006.

The main changes in the scope of consolidation during the financial year that ended 31 December 2006 compared to the previous financial year are related to acquisition from the parent company IZSM of the investment in Vetri Speciali S.p.A. (43.5%) on 30 June 2006.

The companies Verreries Brosse and its subsidiary Brosse USA are consolidated on a 100% line-by-line basis.

The company Vetri Speciali and its subsidiaries, Vetri Speciali Inc. and Vetri Speciali Iberica, are consolidated on a proportional line-by-line basis, at the rate of 43.5%, since that company is subject to joint control by Zignago Vetro.

Translation of financial statements expressed in currencies other than the functional currency

The following rules apply to translating the financial statements of companies expressed in currencies other than the Euro:

– assets and liabilities are translated by using the exchange rates in effect on the balance sheet reference date;

– costs, revenues, expenses, and income are translated at the average exchange rate for the period;

– the translation reserve accrues both the exchange differences generated by translation of economic figures at a different rate from the closing one and those generated by translation of opening shareholders' equity at an exchange rate different from the closing one for the statement period.

Property, plant and equipment

Property, plant and equipment are recognized at their historical cost, including directly allocable associated costs necessary for placing the asset into service for the use for which it was acquired. Land, both undeveloped and that adjoining civil and industrial buildings, is generally accounted for separately and is not depreciated since it has an unlimited useful life. Maintenance and repair costs that cannot increase the value and/or prolong the residual life of the assets are expensed in the year that they were incurred. Otherwise, they are capitalized.
Property, plant and equipment are recognized net of the applicable accumulated depreciation and any impairment losses determined according to the methods described hereunder. Depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the enterprise. The useful life is re-examined annually, and any changes necessary are made on a prospective basis.

The principal depreciation rates used are as follows:

Category	Depreciation rates
Industrial buildings	5.5%
Generic plant and machinery	4% - 10%
Specific plant and machinery	8% - 33.33%
Equipment (moulds)	40% - 100%
Furnaces and decoration tunnel kilns	11% - 25%
Office furniture and furnishings	12%
Electronic office machines	20%
Commercial equipment and furnishings	15%
Special internal communication systems	25%
Motor vehicles	25%

The carrying value of property, plant and equipment is verified to determine any impairment losses if events or changed situations indicate that the carrying value cannot be recovered. If there are such indications, when the carrying value exceeds the presumed realizable value, the assets are written down to the point where they reflect their realizable value. The realizable value of property, plant and equipment is represented by the greater of the net sales price (fair value) and the value in use.
Impairment losses are recognized on the income statement. Impairment losses are reversed if the reasons for recognizing those losses cease to exist. At the time of sale or when future economic benefits from use of the asset are expected, it is eliminated from the financial statement and the loss or profit (calculated as the difference between the sale value and the carrying value) is recognized on the income statement in the year of the elimination.

Leased assets

Assets acquired under finance lease agreements, which substantially transfer to the Group all the risks and rewards of ownership of the leased asset, are capitalized under property, plant, and equipment from the starting date of the lease at the fair value of the leased asset or, if lower, at the current value of the lease installments. A payable for the same amount is recognized under liabilities, and this is steadily reduced according to the installment payment plan for the principal included in the contractually envisaged installments.
The lease installments are divided into the portion for principal and the portion of interest in order to obtain application of a constant interest rate on the remaining balance of the payable (principal). The financial expenses are charged to the income statement.
The depreciation of these assets is calculated according to their useful life analogously to what is done for other property, plant and equipment.
Lease agreements in which the lessor substantially retains all the risks and rewards typical of ownership are classified as operating leases.
The initial costs of negotiation incurred for operating lease agreements are added to the cost of the leased asset and recognized over the term of the lease agreement in order to set off the revenues generated by the lease itself.
Operating lease installments are allocated to the income statement in even installments over the term of the agreement.

Goodwill

The goodwill stemming from acquisition of subsidiaries is initially recognized at cost. It represents the excess cost of purchase with respect to the buyer’s share in the net fair value referred to the identifiable values of the current and potential acquired values of the assets and liabilities. After the initial recognition, goodwill is not amortized but is reduced in the event of an impairment loss.

This impairment loss is not restored if the reasons that caused it cease to exist.
Goodwill is subjected to an impairment test on an annual or more frequent basis if events or changes in circumstances might cause impairment losses.
Upon first-time application of the IFRSs, the Group chose not to apply IFRS 3 – Business Combinations on a retroactive basis to acquisitions of businesses that took place prior to 1 January 2004. Consequently, any goodwill generated on acquisitions prior to the date of transition to the IFRSs was maintained at the prior value determined in accordance with Italian GAAPs, upon verification and recognition of any impairment losses.

Intangible assets

The intangible assets acquired through business combinations are recognized at the fair value defined at the acquisition date if this value can be determined in a reliable manner.
Intangible assets that are acquired separately are recognized under assets at their purchase cost, inclusive of directly allocable transaction costs.
Following their initial recognition, intangible assets with a definite useful life are recognized net of any accumulated amortization and impairment losses, which are determined in the same way as described for property, plant and equipment.
The useful life is re-examined annually and any changes are made as necessary on a prospective basis.
The average rates for amortization of intangible assets with a definite useful life are as follows:

Category	Amortization rate
Concessions, licenses, and trademarks	33.33%

Intangible assets with a definite useful life are subjected to impairment tests to determine any such losses when events or changed situations indicate that the carrying value cannot be realized.
The Group does not own intangible assets with an indefinite useful life.
The profits or losses deriving from disposal of an intangible asset are determined as the difference between the disposal value and the carrying value of the asset and are recognized in the income statement at the time of disposal.

Research and development costs

Research and development costs are recognized on the income statement when they are incurred. The development costs incurred for a specific project are capitalized only when the Group can prove the technical possibility of completing the intangible asset so that it can be made available for use or sale, as well as its own intention to complete this asset for use or sale, the ways in which it will generate probable future economic benefits, the availability of technical, financial, or other resources for completing development, its capacity to reliably assess the cost attributable to the asset during its development, and the existence of a market for the products and services deriving from the activity or its utility for internal purposes.

Impairment

At every annual and interim report closing date, the Group determines whether any indicators of impairment losses of intangible assets with a definite useful life, property, plant and equipment, and assets held under finance leases exist. If any such indicators are revealed, an impairment test is performed.
Goodwill and any other intangible assets with an indefinite useful life are subjected to annual impairment tests, regardless of whether there is any indication of impairment. In both cases, i.e. annual verification of the carrying value of goodwill and intangible assets with an indefinite useful life, or of the property, plant and equipment and intangible assets with a definite useful life if there are indications of impairment losses, the Group estimates the recoverable value. The recoverable value is the greater of the fair value of an asset or cash generating unit net of sale costs and value in use, and is determined according to each individual asset, with the exception of the case where this asset generates cash flows that are not broadly independent from those generated by other assets or groups of assets, in which case the Group estimates the recoverable value of the cash generating unit to which the asset belongs. In particular, since goodwill does not generate cash flows independently from other assets or groups of assets, the impairment test concerns the unit or group of units to which the goodwill was allocated. When it determines the value in use, the Group discounts estimated future cash flows at their current value, by using a pre-tax discount rate that reflects market valuations of the time value of money and the specific risks of the activity.
In order to estimate the value in use, future cash flows are deducted from the business plans approved by Company management. These represent the best possible estimate by the Group of the economic conditions envisaged during the plan period. The plan projections normally cover a period of three years. The long-term growth rate that is used to estimate the final value of the asset or the unit is normally less than the average rate of long-term growth in the reference sector, country, or market and, if appropriate, can be equal to zero or even be negative. Future cash flows are estimated by referring to current conditions. Therefore, the estimates do not consider either the benefits deriving from future restructurings for which the Company has not yet committed itself or future investments for improving or streamlining the asset or unit.
If the carrying value of an asset or cash-generating unit is greater than its recoverable value, this asset has sustained an impairment loss and is consequently written down to its recoverable value.
The impairment losses sustained by functioning assets are recognized on the income statement in the cost categories consistent with the function of the asset that showed an impairment loss. Furthermore, at every financial statement closing date, the Group

assesses any indicators of a decrease in previously recognized impairment losses. If these indicators exist, it makes a new estimate of the recoverable value. With the exception of goodwill, the value of a previously written down asset may be restored only if there have been changes in the estimates used to determine the recoverable value of the asset after the last measurement of an impairment loss. In this case, the carrying value of the asset is restored to the recoverable value. However, the value increased in this way cannot exceed the carrying value that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized in previous years. All restorations of value are recognized as income on the income statement. After a recovery in value is recognized, the amortization or depreciation allowance for the asset is adjusted in future periods in order to divide the modified carrying value, net of any residual values, into equal portions over its remaining useful life.
The value of goodwill that has been previously written down may not be restored in any case to its original value.

Investments in associates

Equity investments in unconsolidated companies that represent long-term investments are recognized under non-current assets and valued according to the cost method if they represent less than 20% of the companies' equity or according to the equity method if they represent between 20% and 50% of the companies' equity.
The carrying value of the investment is determined according to the purchase or subscription price or the value attributed to the contributed assets, including any transaction costs. The cost is reduced for impairment losses. The original value is restored in subsequent years if the reasons for the writedown cease to exist.

Inventories

Inventories are recognized at the lesser of purchase and/or production cost, as determined by the weighted average cost method, and the presumed net realization or replacement value. The net realization value is determined according to the estimated sales price under normal market conditions, net of direct applicable sales costs.
Obsolete and/or slow-moving inventories are written down according to their assumed possibility of use or future realization. The writedown is eliminated in subsequent years if its reasons cease to exist.

Trade receivables

Trade receivables whose due date falls within normal commercial terms are recognized at cost (i.e. their face value) net of any impairment losses. They are adjusted to their

assumed realizable value through recognition of a specific adjustment reserve, which is accrued when there is objective evidence that the Group will be unable to collect the receivable for the original value.
Trade receivables whose due date exceeds normal commercial terms are carried at present value in order to consider the implicit financial component separately.

Securities

Securities are acquired and held for the purpose of managing cash and cash equivalents in view of maximizing return while assuring their flexibility, ease of disposal, and low risk. They are carried at fair value with recognition of their effects on the income statement. The fair value of these instruments is determined by referring to the bid price at the closing date of the measurement period. In the case of unlisted securities, the fair value is determined by means of commonly used financial valuation techniques.

Cash and cash equivalents

These consist of cash on hand, in other words, cash and cash equivalents available on sight or very short notice, successful collection, and absence of fees for collection.

Provisions for risks and liabilities

Provisions for risks and liabilities refer to costs and charges of a specific nature whose existence is certain or probable but whose amount or date of occurrence is undetermined at the closing date of the reference period. Accruals to these provisions are recognized when there is a current legal or implicit obligation deriving from a past event, if an outlay of resources in order to satisfy the obligation is likely and a reliable estimate of the amount of the obligation can be made.
The accruals are recognized at the value most representative of the amount that the Company would pay to extinguish the obligation or to transfer it to third parties at the period closing date. If the effect of expressing these items at their present value is significant, the provisions are determined by calculating the present value of the expected future cash flows at a pre-tax discount rate reflecting the current market value of the cost of money at the time. When this calculation is done, the increased accrual due to the passage of time is recognized as a financial expense.

Employee benefits

The benefits guaranteed to employees and paid upon or after termination of the employment relationship through defined-benefit plans (post-employment benefits) or

other long-term benefit plans (retirement indemnities) are recognized during the period of accrual of the right.
The liability generated by defined-benefit plans, net of any assets servicing the plan, is determined on the basis of actuarial assumptions and is recognized on an accruals basis consistently with the service that must be provided to obtain the benefits. The liability is valued by independent actuaries using the projected unit credit method. The actuarial gains and losses are recognized on the income statement as a cost or revenue regardless of their value, and thus without using the corridor approach.
The amount reflects not only the liabilities accrued at the balance sheet date but also future wage and salary increases and related statistical changes.

Medium to long-term borrowing

Medium to long-term loans are initially recognized at their fair value, net of any transaction costs. Following initial recognition, the financial liabilities are recognized according to the amortized cost principle, using the effective original interest rate method represented by the rate that equalizes the current value of cash flows and the initial recognition value (amortized cost method) at the time of initial recognition.

Trade payables

Trade payables that fall due within the limits of normal commercial terms, are not shown at present value and are recognized at cost (as identified by their face value).

Other current liabilities

Other current liabilities are recognized at their face value.

Derivative financial instruments

The Group holds derivative instruments in order to hedge its exposure to changes in interest rates affecting specific liabilities carried on the balance sheet. Consistently with its chosen strategy, the Group does not execute derivative transactions for speculative purposes. However, if these transactions cannot be accounted for as hedging operations, they are recognized as speculative transactions.
Derivatives are classified as hedging instruments when the relationship between the derivative and the object of the hedge is formally documented and the periodically verified effectiveness of the hedge is high. When hedging derivatives cover the risk of change in the fair value of hedge instruments (fair value hedge; e.g. hedging the

variability of the fair value of assets/liabilities at a fixed rate), they are recognized at their fair value through profit or loss. Consistently with this procedure, the hedged instruments are adjusted to reflect changes in the fair value associated with the hedged risk. When the derivatives hedge the risk of changes in cash flows generated by the instruments covered by the hedge (cash flow hedge; e.g. hedging the variability of cash flows of assets/liabilities at a variable rate due to variations in interest rates), the changes in fair value are initially recognized in equity and then recognized on the income statement consistently with the economic effects produced by the hedged transaction. The changes in fair value derivatives that do not qualify as hedges are recognized on the income statement.
As stated elsewhere in this section, the Group has exercised its right to apply IASs 32 and 39 on a postponed basis, starting from 1 January 2005.

Revenues and costs

Revenues and costs are recognized according to the matching concept. Revenues and income are recognized at their fair value net of returns, discounts, rebates, and premiums. Product sale revenues are recognized at the time when ownership changes hands, which generally coincides with shipment of the assets, and entails transfer of all the risks and benefits connected with the sold products.

Financial income and expenses

Financial income and expenses are recognized according to the matching concept on the basis of the interest accrued on the net value of the associated financial assets and liabilities, using the effective interest rate.

Income taxes

Accruals for income taxes during the year are calculated according to the costs expected from application of current tax laws. The accrual of current income taxes to income is recognized on the balance sheet net of tax prepayments and withholding charged. Deferred tax liabilities or assets are also determined according to the temporary differences between the assets and liabilities recognized on the balance sheet and the corresponding values recognized for tax purposes, with the exception of the goodwill deriving from business combinations. In particular, deferred tax assets are recognized if it is probable that they can be recovered, in other words, when it is envisaged that sufficient taxable profits will be available in future for their recovery. Deferred tax liabilities are not recognized only if it is improbable that the associated liability will arise. Deferred tax assets and liabilities are determined according to the tax rates that are expected to be applicable pursuant to the laws of the various countries in which the Group operates and in the years when the temporary differences will be realized or extinguished. In accordance with IAS 12, the Group recognizes deferred tax liabilities on suspended-tax reserves in equity only if these reserves are not recognized by management as being permanently acquired by the Group or when it is improbable that they can be used in ways that would generate a tax liability.

Translation of accounts expressed in foreign currency

The euro is the functional currency used by the Zignago Vetro Group for preparation of its financial statements. Transactions in currencies other than the euro are initially recognized at the exchange rate existing at the transaction date. Monetary assets and liabilities denominated in currencies other than the euro are reconverted into the functional currency at the exchange rate in effect at the balance sheet date.
Non-monetary accounts recognized at their historical cost in foreign currency are translated by using the exchange rate in effect at the date when the transaction was initially recognized. Non-monetary accounts recognized at fair value are translated by using the exchange rate at the date on which this value is determined.

Earnings per share

The base earnings per share is calculated by dividing the net income for the period allocable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the reference period.
In order to calculate the diluted earnings per share, the weighted average number of shares outstanding is modified by assuming conversion of all potential shares having a dilution effect. The Group’s net income is also adjusted to reflect the effects of translation, net of applicable taxes.

Use of estimates

Preparation of the financial statements and notes in accordance with the IFRSs requires that management make estimates and assumptions that impact the value of the assets and liabilities carried on the balance sheet and disclosures of potential assets and liabilities at the balance sheet date. The actual results might differ from these estimates. The estimates are used to recognize provisions for doubtful accounts, inventory obsolescence, amortization, depreciation, impairment losses on assets, employee benefits, income taxes, and other provisions and reserves. The assumptions and reserves are periodically revised and the effects of all changes are immediately recognized on the income statement.

Exchange rate risk hedging policies

Certain Group companies execute transactions in currencies other than the functional currency of the Group. If these transactions are significant, the Group assesses the possibility of hedging exchange rate risks to mitigate changes in exchange rates.

Interest rate risk hedging policies

Group companies are exposed to the risk of changes in interest rates mainly in connection with its medium and long-term debts. If these risks are considered significant, Group companies enter into interest rate swaps (IRS) in order to convert the variable rate of medium to long-term loans into a fixed rate that allows them to reduce the impact stemming from changes in interest rates.

Natural gas price risk hedging policies

Group companies are exposed to the risk of changes in the purchase cost of natural gas. If the Group finds that this risk is significant, the companies enter into swaps in order to convert the variable cost of methane into a fixed cost that enables them to reduce the impact stemming from changes in energy costs.

APPLICATION OF IFRSs

The Group applied the following International Accounting Standards (IASs). They did not change compared with 2005, and they may have been revised by recalculating the comparative values as necessary.

– IAS 1 Presentation of Financial Statements;
– IAS 2 Inventories;
– IAS 10 Events After the Balance Sheet Date;
– IAS 14 Segment Reporting;
– IAS 17 Leasing;
– IAS 19 Employee Benefits;
– IAS 24 Related Party Disclosures;
– IAS 27 Consolidated and Separate Financial Statements;
– IAS 31 Interests in Joint Ventures;
– IAS 32 Financial Instruments: Disclosure and Presentation (applied starting from 1 January 2005);
– IAS 33 Earnings per Share;
– IAS 39 Financial Instruments: Recognition and Measurement (applied starting from 1 January 2005).

Acquisition of equity investment in Vetri Speciali

On 30 June 2006, Zignago Vetro acquired from its then parent company IZSM a 43.5% equity investment in Vetri Speciali, in addition to an option for the purchase of an additional share of that company's share capital and certain related agreements. Following reorganization and acquisition, the share capital of Vetri Speciali is owned by Zignago Vetro SpA and Owens – Illinois Manufacturing Italy SpA (each holding a 43.5% share), with minority shareholders owning the rest (Calfe for 8.0%, Nuova Holding for 4.0%; Falea for 1.0%).
This transaction was executed by entities under common control. Transactions between entities under common control are specifically excluded from application of IFRS 3 and are generally not regulated by the IFRSs. Therefore, in order to recognize the acquisition, reference was made to other bodies of generally accepted accounting principles that envisage application of accounting methods similar to the pooling of interest method. These methods envisage that: (*i*) business combinations between entities under common control must be accounted for on the basis of the historical values of the acquired assets and liabilities, as appear in the accounting records of the acquired entity; (*ii*) the higher value paid for purchase of the equity investment with respect to the shareholders' equity at the date of the first consolidated balance sheet must be considered as a distribution of reserves by Zignago Vetro SpA in favor of the parent company IZSM and accordingly reduce the consolidated shareholders' equity of Zignago Vetro SpA; (*iii*) the transaction may be recognized as if it had been executed at the beginning of the presented period, regardless of the date on which the combination was actually realized.
Zignago Vetro completed the acquisition of the investment on 30 June 2006, but, for the reasons given above, it is reflected on the income statement as if it had taken place on 1 January 2006. Consequently, the consolidated financial statements of the Group for the year as at 31 December 2006 consist of the consolidated balance sheet as at 31 December 2006, which also reflects the proportional consolidation of 43.5% of Vetri Speciali, and of the consolidated income statement for the year ended 31 December 2006, which includes the proportional consolidation of the financial figures of Vetri Speciali from 1 January 2006.
The sales price was €21,471 thousand, including transaction costs and the previously mentioned call option, and was €2,273 thousand higher than the carrying values as at 31 December 2005 of the 43.5% share of the net assets acquired by the Vetri Speciali Group, equal to €19,198 thousand.

These carrying values and the comparison with the price paid are summarized in the following table:

(in € '000)	IFRS carrying value as at 31 December 2005
Property, plant and equipment	15,953
Goodwill	34,772
Other non-current assets	471
Inventories	5,395
Trade receivables	8,566
Other current assets	520
Cash and cash equivalents	535
Total assets	**66,212**
Provisions for risks and liabilities	104
Provision for post-employment benefits	2,561
Medium to long-term borrowings	26,193
Other non-current liabilities	277
Deferred tax liabilities	2,637
Bank borrowings and current portion of medium to long-term borrowings	8,435
Trade payables	4,446
Other current liabilities	1,716
Payables for current taxes	645
Total liabilities	**47,014**
Net assets purchased	19,198
Price paid	21,471
Difference	2,273

The price paid was based on the following elements:

(in € '000)	
IFRS-compliant shareholders' equity of Vetri Speciali as at 30 June 2006	20,879
Value of call option acquired	563
Transaction costs	29
Total price paid	**21,471**

The call option for purchase of an additional quota of the share capital of Vetri Speciali, which was acquired together with the equity investment, was recognized on the Zignago Vetro balance sheet pursuant to IFRSs according to the amortized cost method. In this specific case, that cost was zero at the balance sheet date.
The price was paid on 27 September 2006.
As previously described, the difference between the cost paid for purchase of the equity investment and the corresponding quota of shareholders' equity acquired, €2,273 thousand, was deducted from the consolidated equity of Zignago Vetro.
The Vetri Speciali Group contributed to the consolidated net income of the Group as at 31 December 2006 in the amount of €4,319 thousand.

COMMENTS ON THE MAIN BALANCE SHEET ACCOUNTS

	31.12.2006	31.12.2005
NON-CURRENT ASSETS	**102,626**	**62,001**

	31.12.2006	31.12.2005
1 – Property, plant and equipment	**66,068**	**60,305**

The following table illustrates the changes in the historical cost, accumulated depreciation, and net value of property, plant and equipment in the periods considered:

(in € '000)	31.12.2006			31.12.2005		
	Historical Cost	Accum. deprec.	Net value	Historical Cost	Accum. deprec.	Net value
Land and buildings	33,711	19,906	13,805	22,558	15,055	7,503
Plant and machinery	183,017	138,745	44,272	156,333	110,805	45,528
Industrial and commercial equipment	59,807	52,400	7,407	44,829	38,347	6,482
Other assets	3,629	3,136	493	2,957	2,583	374
Assets under construction	91	0	91	418	0	418
Total property, plant and equipment	**280,255**	**214,187**	**66,068**	**227,095**	**166,790**	**60,305**

The following table illustrates the changes in property, plant and equipment as at 31 December 2006:

(in € '000)	Balance 01.01.2006	Acquisition Vetri Speciali	Purchases and capitaliz.	Decreases	Deprec.	Balance 31.12.2006
Land and buildings	7,503	7,597	87	0	(1,382)	13,805
Plant and machinery	45,528	7,439	5,480	(43)	(14,132)	44,272
Industrial and commercial equipment	6,482	845	10,704	(4,431)	(6,193)	7,407
Other assets	374	64	338	(29)	(254)	493
Assets under construction and advances paid	418	8	85	(420)	0	91
Total property, plant and equipment	**60,305**	**15,953**	**16,694**	**(4,923)**	**(21,961)**	**66,068**

The following table illustrates the changes in property, plant and equipment as at 31 December 2005:

(in € '000)	Balance 01.01.2005	Acquisitions and capitaliz.	Decreases	Depreciation	Balance 31.12.2005
Land and buildings	8,299	156	0	(952)	7,503
Plant and machinery	55,633	1,982	(169)	(11,918)	45,528
Industrial and commercial equipment	6,706	9,239	(4,042)	(5,421)	6,482
Other assets	449	170	(29)	(216)	374
Assets under construction and advances paid	147	419	(148)	0	418
Total	**71,234**	**11,966**	**(4,388)**	**(18,507)**	**60,305**

The following table illustrates the value of leased buildings accounted for according to the finance-lease method (with indication of the value of the property and any leasehold improvements), and the value of owned buildings for fiscal 2006:

(in € '000)	Balance 01.01.2006	Acquisition Vetri Speciali	Reclassi-fications	Decreases	Depreciation	Balance 31.12.2006
Value of lease agreement	0	5,367	(1,042)	0	(271)	4,054
Leasehold improvements	0	226		16	(30)	212
Total leased buildings	**0**	**5,593**	**(1,042)**	**16**	**(301)**	**4,266**
Total owned buildings	**7,503**	**2,004**	**1,042**	**71**	**(1,081)**	**9,539**
Total land and buildings	**7,503**	**7,597**	**0**	**87**	**(1,382)**	**13,805**

Property, plant and equipment totaled €66,068 thousand as at 31 December 2006, after charging €21,961 thousand for depreciation for the period, investments for €16,694 thousand, and contribution of €15,593 thousand from the investment in Vetri Speciali.

Land and buildings

In addition to owned property, this account includes leased buildings, which are accounted for according to the finance-lease method.
The balance as at 31 December 2005 was €7,503 thousand, and as at 31 December 2006 it was €13,805 thousand. The increase is largely attributable to the acquisition of Vetri Speciali.

In December 2001, the company Vetrerie Venete, which was taken over by and merged with Vetri Speciali in 2005, had entered into a contract for sale and lease back with Medio Credito Trentino Alto Adige, with the object of the contract being that company's industrial plant. In 1998, the company Nord Vetri, which was taken over by and merged with Vetri Speciali in 2005, had entered into a finance lease agreement whose object was its own industrial plant.
The increases for 2005 mainly refer to remodeling carried out by the parent company, which continued in 2006.
Depreciation totaled €952 thousand in 2005 and €1,382 thousand in 2006. The increase was attributable to acquisition of the subsidiary Vetri Speciali in 2006.

Plant and machinery

The balance as at 31 December 2005 was €45,528 thousand and €44,272 thousand as at 31 December 2006.

The increases for 2006, totaling €5,480 thousand, include €3,271 thousand for the subsidiary Verreries Brosse, particularly for the refurbishment of the furnace for automatic production and a furnace for semi-automatic production, as well as improvement of product quality and plant safety in general. The increases at the parent company, for €1,847 thousand and those for Vetri Speciali, for €541 thousand, refer to purchases of new plant and machinery.

The increases for 2005, totaling €1,982 thousand, include €934 thousand for the subsidiary Verreries Brosse, particularly for the automatic palleting plant, construction of new spaces for plant personnel, and improvement of product quality and plant safety in general, and €1,048 thousand for purchases of new plant and machinery by the parent company.

Depreciation totaled €11,918 thousand in 2005 and €14,132 thousand in 2006. The increase is attributable to acquisition of the subsidiary Vetri Speciali in 2006.

Industrial and commercial equipment

The balance as at 31 December 2005 was €6,482 thousand and €7,407 thousand as at 31 December 2006.
The increases for 2006, totaling €10,704 thousand, include €8,757 thousand referring to the parent company for purchase of new equipment, especially moulds and pallets.

The increases at the subsidiary Verreries Brosse totaled €2,379 thousand, including €1,062 thousand for moulds. The increases at Vetri Speciali totaled €718 thousand and refer almost entirely to the purchase of moulds.
The decreases for 2006, totaling €4,431 thousand, include €4,413 thousand upon disposal by the parent company of moulds and pallets that could no longer be used.

The increases for 2005, totaling €9,239 thousand, include €7,404 thousand which refer to the parent company and concern the purchase of new moulds and pallets for €6,532 thousand and the purchase of new equipment for €872 thousand. The increases at Verreries Brosse totaled €1,835 thousand, of which €1,139 thousand refer to new moulds.
The decreases for 2005, totaling €4,042 thousand, mainly refer to disposal by the parent company of moulds and pallets that could no longer be used.

Other assets

The balance as at 31 December 2005 was €374 thousand and €493 thousand as at 31 December 2006.

Assets under construction and advances paid

The balance as at 31 December 2005 was €418 thousand and €91 thousand as at 31 December 2006.
Assets under construction decreased due to completion of the new work underway at the end of 2005, especially by the company Verrerie Brosse.

	31.12.2006	31.12.2005
2 – Goodwill	**34,772**	**0**

The value of €34,772 thousand entered as goodwill at 31 December 2006 refers to the gains paid for acquisition by Vetri Speciali for industrial enterprises operating in the specialty glass containers sector: Nord Vetri, Attività Industriali Friuli, and Vetrerie Venete, as part of the corporate reorganization that took place in 2004. These companies operated in a specific sector characterized by high investments that do not envisage technological changes.
The value of goodwill was subjected to an impairment test. The impairment test, calculated according to the expected cash flows attributable to the sole cash generating unit “Vetri Speciali,” did not reveal the need for making any impairment losses.

	31.12.2006	31.12.2005
3 – Intangible assets	**214**	**238**

The following table shows the changes in historical cost and accumulated amortization of intangible assets during the periods considered:

(in € '000)	Balance at 31.12.2006			Balance at 31.12.2005		
	Historical Cost	Accum. Amortiz.	Net Value	Historical Cost	Accum. Amortiz.	Net Value
Concessions, licences, trademarks, sim. rights	771	(557)	214	484	(246)	238

The following tables shows the changes in intangible assets during the fiscal years considered:

(in € '000)	Balance 01.01.2006	Purchases	Decreases	Amortiz.	Balance 31.12.2006
Concessions, licenses, trademarks, and similar rights	238	126	(135)	(150)	214
Total intangible assets	**238**	**126**	**(135)**	**(150)**	**214**

(in € '000)	Balance 01.01.2005	Purchases	Amortiz.	Balance 31.12.2005
Concessions, licenses, trademarks,and similar rights	286	62	(110)	238
Total intangible assets	**286**	**62**	**(110)**	**238**

This account refers mainly to the costs incurred for purchase of software applications with a long-term useful life, utilized for operations and research activities.

Investments totaled €126 thousand in fiscal 2006 and consisted of application software purchased by Zignago Vetro for €45 thousand, by Vetri Speciali for €69 thousand, and by Verreries Brosse for €12 thousand.

Investments totaled €62 thousand in fiscal 2005 and consisted of application software purchased by Verreries Brosse and new international registrations of ornamental models by Vetri Speciali.

	31.12.2006	31.12.2005
4 – Investments in associates	**205**	**199**

The following table illustrates the changes in investments in other companies during the period that ended 31 December 2006:

	Balance 01.01.2006	Increases	Decreases	Balance 31.12.2006
La Vecchia Scarl	163	0	0	163
Consorzio Nazionale Imballaggi (CONAI)	10		0	10
Approvvigionamento Internazionale Consortile			0	
Energy (A.I.C.E.)	10	0	0	10
Vega - Parco Tecnologico	6	0	0	6
Consorzio Recupero Vetro (CO.RE.VE.)	6	2	0	8
Other	4	4	0	8
Total investments in associates	**199**	**6**	**0**	**205**

Investments in associates did not change significantly in fiscal 2006.

The object of the company “La Vecchia Scarl,” incorporated in fiscal 2004 as a consortium, is operation of the waste water treatment plant and treatment of water supplies. Zignago Vetro subscribed a quota of 12% of the capital stock, corresponding to €12 thousand, and also made a capital contribution (€151 thousand) to cover purchase of plants by the consortium company.

Impairment

At 31 December 2006, 2005, and 2004, the Group did not recognize non-current assets with an indefinite useful life, except for goodwill. During these three fiscal years, no indications were found such as to cause the Group to extend the impairment test to non-current assets with a definite useful life. Goodwill was subjected to impairment testing in order to determine the adequacy of its recognized value.
When performing the test, the following assumptions were made and the following data were used:

– goodwill was allocated to the cash generating unit “Vetri Speciali,” since this intangible asset does not independently produce future economic benefits;

- the financial figures are obtained from the 2007-2009 business plan prepared by the Company;
- in order to determine cash flows, the value of investments and the change in net current assets was stripped from EBITDA. In particular, the cash flow for 2009, used as a constant value for obtaining the terminal value, was obtained by assuming that the value of investments was equal to the value of amortization;
- the cash flows were discounted at the WACC, determined on the basis of the following assumptions:
  - risk free rate: 3.84%;
  - beta: 1.1;
  - risk premium (country risk): 5%;
  - debt-to-equity ratio: deduced from the exact figures of the company at 31 December 2006.
- The terminal value was determined by considering the same cash flow in 2009 as being constant for nine years and by taking the present value of these amounts. The rate of growth, *g*, was prudently estimated to be zero.
- In order to determine the recoverable value, reference was made to the value in use.

	31.12.2006	31.12.2005
5 – Other non-current assets	**83**	**63**

The account in question, which was €63 thousand as at 31 December 2005 and €83 thousand as at 31 December 2006, consists of receivables for security deposits at suppliers of servomechanisms and property companies whose duration is correlated to the duration of the reference agreement, which normally has a term of between one and five years.

	31.12.2006	31.12.2005
6 – Deferred tax assets	**1,284**	**1,196**

The following table illustrates the composition of deferred tax assets in the periods considered:

(in € '000)	31.12.2006		31.12.2005	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Taxed provision for doubtful accounts	1,049	346	954	314
Agent indemnity provision	330	123	319	119
Industrial risks provision	368	138	728	271
Contractual risks provision	28	10	27	10
Pension indemnity provision	767	256	730	247
Intercompany profit on inventories	97	36	0	0
Adjustment of provision for post-employment benefits			51	19
Amortization and depreciation deductible in subsequent years	373	139	580	216
Fair value measurement of derivative financial instruments	296	97	0	0
Harmonization of accounting standards	269	100	0	0
Others		39		0
Total deferred tax assets		**1,284**		**1,196**

Group companies fully recognized deferred tax assets resulting from temporary differences that arose between the value of the assets and liabilities identified for statutory purposes and the corresponding tax value, since they believe that the future taxable amounts will absorb all the temporary differences (including consolidation adjustments) that generated them. In determining deferred tax assets, reference was made to the corporate income tax (IRES) rate (33%) and, when applicable, to the Italian regional business tax (IRAP) rate (4.25%).
Deferred tax assets refer principally to accrual of tax provisions for technical risk provisions, the provision for complaint risks, the provision for doubtful accounts, and the provision for pension indemnities.

The change of €88 thousand as at 31 December 2006 from the previous year is principally attributable to use by Zignago Vetro of the industrial risk provision following reimbursement of damages to a customer, in addition to the increases resulting from change in the scope of consolidation.

The tax prepayments as at 31 December 2006 for recognition at fair value of financial instruments refer exclusively to the commodity swap entered into by Zignago Vetro on 3 November 2006. The interest rate swap to which Vetri Speciali was party at 31 December 2006 does not generate deferred tax assets, since the value of that swap is subject to taxation following application of IFRSs by Vetri Speciali.

The changes in deferred tax assets during the fiscal years considered are as follows:

(in € '000)	
Balance at 31 December 2004	**1,006**
Utilization	(75)
Increases	265
Balance at 31 December 2005	**1,196**
Acquisition of Vetri Speciali	223
Utilization	(454)
Increases	319
Balance at 31 December 2006	**1,284**

	31.12.2006	31.12.2005
CURRENT ACTIVITIES	**101,769**	**109,470**

	31.12.2006	31.12.2005
7 – Inventories	**41,781**	**34,779**

The following table illustrates the breakdown of inventories:

	Balance at 31.12.2006	Balance at 31.12.2005
Raw and ancillary materials and consumables	5,175	4,767
Work in progress and semi-finished products	3,197	2,632
Finished products	34,089	28,257
Inventory impairment provision	(680)	(877)
Total	**41,781**	**34,779**

Inventories totaled €41,781 thousand as at 31 December 2006, compared with €34,779 thousand as at 31 December 2005.
The increase is largely accounted for by Zignago Vetro, whose inventories are returning to normal levels for business operations after the decreases occurred in the last years due to the refurbishment of one of the furnaces.

Inventories as at 31 December 2005 increased by €4,588 thousand compared with the previous year. This change is explained by the increase in production volumes and the temporary stop of one of the furnaces at Zignago Vetro in 2004, which caused a slowdown in production and consequent lowering of the normal level of inventories. The obsolescence provision refers to the subsidiary Verreries Brosse. The €197 thousand decrease in this reserve during 2006 and €233 thousand during 2005 reflected the high level of scrapping of obsolete products that were no longer marketable.

	31.12.2006	31.12.2005
8 – Trade receivables	**50,281**	**41,344**

The following table illustrates the breakdown of trade receivables from customers and associated adjustment reserves:

	Balance at 31.12.2006	Balance at 31.12.2005
Receivables from domestic customers	28,752	25,292
Receivables from international customers	14,556	11,300
Receivables from parent companies	3	0
Receivables credited subject to collection	8,907	6,120
Provision for doubtful accounts	(1,937)	(1,368)
Total trade receivables	**50,281**	**41,344**

The increase in trade receivables is connected to contingent invoicing factors, in addition to the contribution made by the new scope of consolidation, €8,334 thousand.
Most of the receivables of Zignago Vetro, which represent 63.6% of Group receivables, are secured by insurance policies.
The company did not have significant concentrations of credit risk at the reference date.

The following changes occurred in the provision for doubtful accounts:

	Balance at 31.12.2006	Balance at 31.12.2005
Reserve at the beginning of the period	(1,368)	(1,269)
Consolidation of Vetri Speciali	(485)	0
Accruals	(195)	(144)
Utilization	111	45
Total	**(1,937)**	**(1,368)**

Considering the existing insurance policies, the provision for doubtful accounts increased by €195 thousand to cover risk positions that arose during the year or receivables that became uncollectible during the year.

The following table illustrates the breakdown of trade receivables by region at the end of every period considered:

	Balance at 31.12.2006	Balance at 31.12.2005
Italy	33,733	28,592
European Union	12,144	10,033
Other countries	4,404	2,719
North America	*2,560*	*872*
Total trade receivables	**50,281**	**41,344**

	31.12.2006	31.12.2005
9 – Other current assets	**760**	**300**

The following table illustrates the composition of other current assets:

	Balance at 31.12.2006	**Balance at 31.12.2005**
Advances to social security institutions and other receivables from employees and agents	77	16
Advances to suppliers	49	26
Other receivables	351	16
Total sundry receivables	**477**	**58**
Accrued income for interest income	0	72
Accrued income for services	25	
Prepaid expenses for:		
– insurance premiums	200	139
– leases and rentals	58	31
Total accrued income and prepaid expenses	**283**	**242**
Total other current assets	**760**	**300**

Advances to social security institutions refer to payment of the INAIL prepayment.
The advances to suppliers refer to payments advanced against services that will be rendered in future.

Prepaid expenses refer mainly to insurance premiums paid in advance and lease installments paid in advance. The increase during 2006 from 2005 is accounted for by the increase in the premium paid by Zignago Vetro to cover industrial risks. The accrued income for interest income in fiscal 2006 has a zero balance following closing by Zignago Vetro of time deposits at banks and liquidation of the securities portfolio.

	31.12.2006	31.12.2005
10 – Receivables for current taxes	**1,671**	**759**

The following table illustrates the breakdown of receivables for current taxes by type:

(in € ’000)	31.12.2006	31.12.2005
Receivables from Tax Authorities for VAT	1,094	0
Receivables from Tax Authorities for income taxes	496	662
Receivables from Tax Authorities for tax prepayment on post-employment benefits	81	97
Total receivables for current taxes	**1,671**	**759**

The receivable from Tax Authorities for VAT in fiscal 2006 and fiscal 2005 rose, mainly at Zignago Vetro and Verreries Brosse.

The decrease in the receivable for the tax prepayment on post-employment benefits originated from the reduction in withholding paid for post-employment benefits paid during the year.

	31.12.2006	31.12.2005
11 – Securities	**49**	**2,500**

Securities are represented by bonds for a total value of €49 thousand for Verreries Brosse SaS against €2,500 thousand as at 31 December 2005 for Zignago Vetro SpA. This purchase of securities does not represent a long-term financial investment.
The securities were acquired and held in order to manage cash in view of maximizing yield consistently with a rationale of flexibility, liquidity, and minimum risk.
As at 31 December 2005, this account, recognized only by Zignago Vetro, was represented by BNL bonds maturing in March 2006 for a total value of €2,500 thousand. This purchase of securities did not represent a long-term financial investment and was realized in March 2006.

The average yield for the period 1 January-31 December 2006 was approximately 3.60%.

	31.12.2006	31.12.2005
12 – Cash and cash equivalents	**7,227**	**29,788**

The following table illustrates the composition of cash and cash equivalents:

(in € '000)	31.12.2006	31.12.2005
Time deposits at banks	0	19,500
Current bank and postal accounts	7,214	10,286
Cash on hand	13	2
Total	**7,227**	**29,788**

As at 31 December 2006 cash and cash equivalents totaled €7,227 thousand, against €29,788 thousand as at 31 December 2005, for a decrease of €22,561 thousand. This was explained by the payment of dividends for €40,000 thousand and payment of the equity investment in Vetri Speciali for €21,471 thousand on 27 September 2006.
The cash and cash equivalents as at 31 December 2005 were invested in time deposits at banks for a maximum term of 3 months at an interest rate of 2.65%.

	31.12.2006	31.12.2005
SHAREHOLDERS' EQUITY	**61,336**	**89,660**

	31.12.2006	31.12.2005
13 – Shareholders' equity	**61,336**	**89,660**

Share capital

The share capital of Zignago Vetro SpA as at 31 December 2006, fully subscribed and paid in, was increased to 80,000,000 ordinary shares with a par value of €0.10 each, with withdrawal of €3,868 thousand from the revaluation reserve. As at 31 December 2005, it consisted of 80,000 ordinary shares with a par value of €51.65 each.

The share capital of Zignago Vetro as at 31 December 2005, fully subscribed and paid in, consisted of 80,000 ordinary shares with a par value of €51.65 each.

Revaluation reserves

The revaluation reserves consist of the positive balances of monetary revaluation resulting from application of the following laws:

(in € '000)	31.12.2006	31.12.2005
Law 342/2000 reserve	24,823	28,691
Law 72/1983 reserve	932	932
Law 413/1991 reserve, released	1,539	1,579
Total	**27,294**	**31,202**

The Law 342/2000 reserve is net of the substitute tax.

The account "other reserves" consists exclusively of the reserves envisaged in Article 55 of Italian Presidential Decrees 597/1973 and 917/1986 for €6,960 thousand.

The translation reserve reflects the differences from translation into Euro of the financial statements of Brosse USA Inc. and Vetri Speciali Inc., which are expressed in a foreign currency.

The breakdown of reserves qualifying for deferred taxation during the period considered is illustrated as follows:

The translation reserve covers differences of translation into Euro of the financial statements expressed in foreign currency by Brosse USA Inc. and Vetri Speciali Inc.

The decrease of €28,324 thousand in shareholders' equity during 2006 compared with 31 December 2005 is the result of the income of €15,415 thousand for the year, the payment of €41,401 in dividends by Zignago Vetro SpA (€40,000 thousand) and Vetri Speciali SpA (€1,401 thousand), the effect due to purchase by IZSM and subsequent consolidation of the now jointly controlled subsidiary Vetri Speciali SpA for €2,273 thousand (not consolidated until after 31 December 2005), and the change in the translation reserve by a negative €65 thousand.

	31.12.2006	31.12.2005
NON-CURRENT LIABILITIES	**58,303**	**28,193**

	31.12.2006	31.12.2005
14 – Provisions for risks and liabilities	**1,562**	**1,949**

The following table illustrates the breakdown of various liabilities and risk reserves:

(in € '000)	31.12.2006	31.12.2005
Supplemental agent indemnity provision	342	318
Provision for contractual risks	28	26
Provision for industrial risks	368	730
Provision for retirement indemnities	767	730
Provision for tax risks	57	145
Total Provisions for risks and liabilities	**1,562**	**1,949**

Supplemental agent indemnity provision

The supplemental agent indemnity provision is accrued in accordance with law and collective bargaining agreements to cover interruptions of agency relationships with agents.

The following table illustrates changes in the provision during the considered years:

(in € '000)	2006	2005
Provision as at 1 January	**318**	**338**
Accruals	24	4
Utilization	0	(24)
Provision as at 31 December	**342**	**318**

Provision for technical, commercial and other typical business risks

The provision of technical risks, which as at 31 December 2006 and 31 December 2005 was zero, was fully released in fiscal 2005 following issuance of the appeal judgment by the Council of State, which barred the decision previously issued by the Antitrust Authority.

Provision for contractual risks

The provision for contractual risks is accrued against claims pending trial, principally in regard to employee lawsuits. The following table illustrates the change in the provision during the years considered:

(in € '000)	2006	2005
Provision as at 1 January	**26**	**205**
Combination of Vetri Speciali	9	0
Accruals	0	0
Utilization	(7)	(179)
Provision as at 31 December	**28**	**26**

As at 31 December 2006 the reserve for contractual risks totaled €28 thousand, decreasing by €7 thousand upon conclusion of a lawsuit against Zignago Vetro.
In the year that ended 31 December 2005, the provision was used or released to the income statement for a total of €211 thousand against payments made or following formal settlement of pending controversies.

Provision for industrial risks

The following table illustrates changes in the provision during the years considered:

(in € '000)	2006	2005
Provision as at 1 January	**730**	**764**
Combination of Vetri Speciali	95	0
Accruals	178	58
Utilization	(635)	(92)
Provision as at 31 December	**368**	**730**

The industrial risks provision was accrued to cover complaints by customers due to production defects to be settled and potential losses on packaging materials for which a buy-back commitment had been reached.
In fiscal 2006, the provision was used for €635 thousand, with €518 thousand being allocable to settlement by Zignago Vetro of a dispute with a customer.
In 2005, €154 thousand were accrued to cover new controversies undertaken in 2005, and a utilization of €118 thousand, principally to cover settlement of a dispute with a customer.

Provision for retirement indemnities

The provision for retirement indemnities accrued by Verreries Brosse refers to the estimated liability towards employees who terminate their employment relationship with the company solely in order to retire, net of what has already been paid into a specific insurance fund.

(in € '000)	2006	2005
Provision as at 1 January	**730**	**668**
Accruals	37	62
Utilization	0	0
Provision as at 31 December	**767**	**730**

Provision for tax risks

The following table illustrates the changes in the provision during the periods considered:

(in € '000)	2006	2005
Provision as at 1 January	**145**	**239**
Accruals	0	0
Utilization	(88)	(94)
Provision as at 31 December	**57**	**145**

The provision for tax risks recognized by Verreries Brosse S.a.S. refers to the estimated liability for assessments following tax audits covering fiscal 2002 and 2003, against with appeals were filed before the Rouen Tax Commission. The reduction from the accrual for 2004 is related to the favorable opinion expressed by the aforementioned Commission on certain counter-arguments submitted by the Company.

The reduction of €88 thousand recognized as at 31 December 2006 compared with 31 December 2005 is related to partial abandonment of the previous assessments made by French Tax Authorities.
The reduction recorded as at 31 December 2005 compared with 2004 accruals is related to the favorable opinion expressed by the aforementioned Commission on certain counter-arguments submitted by the Company.

	31.12.2006	31.12.2005
15 – Provision for post-employment benefits	**9,894**	**6,752**

The following table illustrates the changes in the provision for post-employment benefits during the periods considered:

(in € ’000)	2006	2005
Provision as at 1 January	**6,752**	**6,099**
Acquisition / Combination of Vetri Speciali	2,561	0
Accruals	1,651	1,218
Utilization	(1,070)	(565)
Provision as at 31 December	**9,894**	**6,752**

The value of the provision for post-employment benefits was determined by an independent actuary using the projected unit credit method of the receivable and the following basic assumptions:

– *actual mortality rate*: these figures were derived by the actuaries by reducing the mortality quotients obtained from the ISTAT Simf/f 1998 demographic table by 20%;

– *actual disability rate*: in order to estimate the real trend of disability rates, a table constructed on the basis of assumed mortality differentiated according to age was used;

– *rate of early separation from employment (terminations and resignations)*: a constant annual rate of 0.5% for senior management, 6% for white-collar employees, and 10% for blue-collar employees was assumed;

– *rate of requests for advances on post-employment benefits*: a constant average annual rate was assumed, resulting from the product of the rate of employees who request an advance every year and the percentage of accrued post-employment benefit requested, equal to 0% for senior management and 3% for white-collar and blue-collar employees;

– *interest rate for determination of current value of obligation*: this was assumed to be 4.1%, on the basis of the estimated trend of the rate curve over the considered time horizon;

– *real rate of wage and salary increases*: this rate was assumed to be 4.5% for senior management and 4% for white-collar and blue-collar employees, on the basis of the estimates made by management for compensation increases to be granted to employees;

– *annual future inflation rate*: this was estimated to be 2.1% over the considered time horizon;

– *retirement dates*: these were estimated in accordance with applicable law;

– *inflation indexing rate for accrued post-employment benefits*: this was estimated in accordance with applicable laws: 1.5% plus 75% of the annual inflation rate.

	31.12.2006	31.12.2005
16 – Medium to long-term borrowings	**35,883**	**6,500**

The following table illustrates the composition of medium to long-term borrowings:

Note (in € '000)	31.12.2006	31.12.2005
A. Mediocredito Trentino Alto Adige loan reimbursable by 2013, at a variable rate (3.05% at 31 December 2005, 4.7% at 31 December 2006)	17,677	0
B. Non-revolving letter of credit, subscribed with Banco Popolare di Verona e Novara, Banca Popolare di Vicenza, and Credito Bergamasco, at the Euribor 3/6 months rate + 0.40%, due 21 December 2011	14,940	0
C. Banca Nazionale del Lavoro loan due by 2009, fixed rate of 6%	6,500	9,100
D. Mediocredito Trentino Alto Adige finance lease due by 2013, at variable rate (3.06% at 31 December 2004, 3.04% at 31 December 2005, 4.056% at 31 December 2006)	3,836	0
E. Mediocredito Friuli Venezia Giulia loan due by 2008, at fixed rate of 4%	616	0
F. Mediocredito Trentino Alto Adige loan due by 2007, at variable rate (4.45% at 31 December 2004, 4.20% at 31 December 2005, 5.3% at 31 December 2006)	137	0
Total medium to long-term borrowings	**43,706**	**9,100**
Minus current installments	(7,823)	(2,600)
Medium to long-term portion	**35,883**	**6,500**

The medium to long-term borrowings outstanding as at 31 December 2006 totaled €35,883 thousand, compared with €6,500 thousand as at 31 December 2005. The increase in medium to long-term borrowings is mainly due to consolidation of Vetri Speciali SpA and assumption of a loan by the parent company Zignago Vetro SpA.

As at 31 December 2006 and 31 December 2005, the annual due dates for medium to long-term borrowings are as follows:

(in € '000)	31.12.2006	31.12.2005
Fiscal 2006		2,600
Fiscal 2007	7,823	2,600
Fiscal 2008	9,005	2,600
Fiscal 2009	7,554	1,300
Fiscal 2010	6,325	0
After fiscal 2010	12,999	0
Total medium to long-term borrowings	**43,706**	**9,100**

The medium to long-term borrowings outstanding as at 31 December 2005 and 31 December 2006 are represented by:

A) Senior note issued in 2005 replacing bridge loan received by Vetri Speciali from Mediocredito Trentino Alto Adige, for a total of €26,252 thousand (Group's interest in loan), at an ordinary rate for 18 months. This loan, whose initial due date was 11 April 2006, was extinguished in fiscal 2005. A senior note was simultaneously issued with the same bank, with a reimbursement plan envisaging 12 semiannual deferred installments starting 10 November 2007. This loan, which was obtained for the purchase of equity investments in October 2004, is secured by mortgages and liens on the plants owned by Vetri Speciali. The reduction of the loan in 2006 from 2005 is attributable to early reimbursement during the year;

B) Non-revolving letter of credit entered into by Zignago Vetro with Banco Popolare Verona e Novara S.c.r.l., Banca Popolare Vicenza S.c.p.A., and Credito Bergamasco SpA on 21 December 2006, for a notional amount of €25,000 thousand, of which €14,940 thousand had been disbursed as at 31 December 2006, due on 21 December 2011;

C) Loan obtained by Verreries Brosse from Banca Nazionale del Lavoro to finance the scheduled investment plan. In 2006 and 2005, €2,600 thousand was repaid against this loan. The amortization schedule envisages semiannual reimbursements of €1,300 thousand starting 1 June 2004;

D) The residual €3,836 thousand as at 31 December 2006, with a short-term installment of €349 thousand, corresponding to the Group's 43.5% interest, stemming from recognition of the finance lease entered into by Vetrerie Venete on 14 December 2001 according to the finance method. In order to hedge the risk of changes in the interest rate paid for the lease originally entered into by Vetrerie Venete, it entered into an amortized interest rate swap (IRS) agreement on 12 March 2002. See the note on other non-current liabilities for further details on the hedging transaction;

E) The residual €616 thousand as at 31 December 2006, with a short-term installment of €406 thousand, corresponding to the Group's 43.5% interest, for a seven-year loan granted to Attività Industriali Friuli by Mediocredito del Friuli Venezia Giulia at the fixed rate of 4%, due 1 January 2008. This loan is secured by a mortgage on real estate in addition to a standby letter of credit;

F) Loan granted to Nord Vetri by Mediocredito Trentino Alto Adige at a variable rate and due 31 December 2007. This loan is secured by a mortgage on the company's land and buildings and a lien on its plants. The residual portion of €137 thousand is included entirely in the current installment.

In order to hedge the risk of changes in the interest rate paid for the lease originally entered into by Vetrerie Venete SpA (a company acquired by Vetri Speciali SpA in 2004), it entered into an amortized interest rate swap agreement on 12 March 2002, with an original notional value of €5,210 thousand (for the Group's 43.5% share), due 1 January 2010.

Covenants on financing

Against the letter of credit described above at point B, for a notional value of €25,000 thousand, of which €14,940 thousand had been disbursed as at 31 December 2006, the parent company is bound by compliance with certain financial indices whose characteristics and costs are not inconsistent with general market practice. In particular, Zignago Vetro must comply with the following parameters, to be calculated at the consolidated level on a periodic basis: (*i*) the ratio between net indebtedness and EBITDA must be less than 4 for fiscal 2007 and 3 for the subsequent fiscal years until the financing due date; and (*ii*) the ratio between EBITDA and net indebtedness must be greater than 7 for the entire duration of the financing. These parameters were complied with as at 31 December 2006.

	31.12.2006	31.12.2005
17 – Other non-current liabilities	**153**	**0**

The following table illustrates the breakdown of other non-current liabilities:

(in € '000)	31.12.2006	31.12.2005
Adjustment of the amortized IRS to fair value	153	0
Total other non-current liabilities	**153**	**0**

As indicated in the note on long-term borrowings, in order to hedge the risk of changes in the interest rate paid for a lease agreement originally made by Vetrerie Venete, it entered into an amortized interest rate swap agreement on 12 March 2002 with the Banca Popolare di Vicenza, whose original notional value was €5,210 thousand (for the Group's 43.5% share) due on 1 January 2010. It envisages semiannual payment of a differential for interest based on the 6-month Euribor rate with respect to an agreed fixed interest rate of 5.33%. The notional portion of the Group's residual share of the financing as at 31 December 2006 was €3,841 thousand. Considering the fact that this transaction does not satisfy all the conditions imposed by IAS 39 in order to be qualified as a hedging transaction, it is recognized as a speculative operation, and the changes in its fair value are recognized in the income statement. Adjustment of this Amortized IRS to its fair value as at 31 December 2006 resulted in recognition of a liability of €153 thousand (for the Group's 43.5% share).

	31.12.2006	31.12.2005
18 – Deferred tax liabilities	**10,811**	**12,992**

The following table illustrates the composition of deferred tax liabilities during the periods considered:

(in € '000)	31.12.2006		31.12.2005	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Excess and accelerated amortization and depreciation	18,304	6,818	27,552	10,263
Accelerated amortization and depreciation for which IRES (corporate income tax) has been paid	4,342	185	5,033	214
Allocation of higher value of assets	2,430	905	0	0
Recognition of finance leases pursuant to IAS 17	664	247	0	0
Adjustment of inventories to average cost	863	320	652	243
Adjustment of reserves qualifying for deferred taxation	6,044	2,251	6,044	2,251
Others		85		21
		10,811		**12,992**

The deferred tax liabilities are comprised principally of deferred tax liabilities accrued against temporary differences for the amortization and depreciation calculated by the Company in accordance with Italian tax law (accelerated and excess amortization and depreciation).

It is also comprised of the tax liabilities on the temporary differences originating between the value of inventories calculated according to the LIFO method used for tax purposes and the value of inventories calculated according to the weighted average cost

method pursuant to IFRSs, as well as the tax effect on reserves qualifying for deferred taxation for those referred to reserves for capital contributions and recognition of medium and long-term borrowings on the basis of the amortized cost.
Following consolidation of Vetri Speciali, the reserve for deferred tax reserves is also comprised of the negative tax effect for the residual value of the higher allocated values, principally to plants, upon acquisition of the three glass works by Vetri Speciali. The deferred tax liability was calculated because the amortization and depreciation for these allocations are not tax deductible.

Shareholders’ equity as at 31 December 2006 and 31 December 2005 includes certain reserves qualifying for deferred taxation, which are illustrated as follows:

(in € ’000)	31.12.2006	31.12.2005
Revaluation reserves		
Law 342/2000 reserve	24,823	28,691
Law 72/1983 reserve	932	932
Other reserves		
Reserve pursuant to Article 55, Presidential Decrees 597/1973 and 917/1986	6,167	6,960
Total	**31,922**	**36,583**

Deferred tax liabilities were accrued for €2,251 thousand to cover the reserves qualifying for deferred taxation totaling €6,044 thousand and regarding the reserves for contributions to the capital account (Reserve pursuant to Article 55, Presidential Decrees 597/1973 and 917/1986), as indicated in the schedule for deferred tax liabilities illustrated above. In accordance with IAS 12, no deferred tax liabilities were accrued for the revaluation reserves since it is not expected that they will be distributed.
The following table illustrates the changes in the provision for deferred tax liabilities during the periods considered:

(in € ’000)	
Balance as at 31 December 2004	**13,369**
Utilization	(2,596)
Increases	2,219
Balance as at 31 December 2005	**12,992**
Acquisition of Vetri Speciali	2,637
Utilization	(7,221)
Increases	2,403
Balance as at 31 December 2006	**10,811**

Deferred tax liabilities totaled €12,992 thousand as at 31 December 2005 and €10,811 thousand as at 31 December 2006. The reduction is principally attributable to the early recovery of accelerated amortization and depreciation at Zignago Vetro following the extraordinary payment of dividends in 2006, which partially released the reserve obligations for masses which caused partial removal of the restriction of coverage of funds imposed by Article 109 of the Consolidated Law on Income Tax (TUIR).

	31.12.2006	31.12.2005
CURRENT LIABILITIES	**31,920**	**14,987**

	31.12.2006	31.12.2005
19 – Bank borrowings and current portion of medium to long-term borrowings	**31,920**	**14,987**

The following table illustrates the breakdown of bank borrowings and the current share of medium to long-term borrowings:

(in € ’000)	31.12.2006	31.12.2005
Bank borrowings	179	0
Advances on collection orders	10,107	4,460
Advances on invoices	13,811	7,927
Current portion of medium to long-term borrowings	7,823	2,600
Bank borrowings and current portion of medium to long-term borrowings	**31,920**	**14,987**

For more details on the characteristics of medium to long-term borrowings and finance leases, whose short-term portion is included in bank and other borrowings for a total of €7,823 thousand as at 31 December 2006, and €2,600 thousand as at 31 December 2005, reference is made to the section on “*Medium to long-term borrowings”* (see the table above detailing loans and lease contracts).

	31.12.2006	31.12.2005
20 – Trade payables	**36,796**	**28,268**

The following table illustrates the breakdown of trade payables by region at 31 December 2006 and 31 December 2005:

(in € ’000)	31.12.2006	31.12.2005
Italy	30,302	23,292
European Union	6,341	4,859
Other countries	153	117
North America	*114*	*18*
Total trade payables	**36,796**	**28,268**

Trade payables as at 31 December 2006 totaled €36,796 thousand and increased by €8,528 thousand compared with 31 December 2005. The increase in trade payables stems primarily from the higher payables attributable to acquisition of Vetri Speciali, as well as to services connected with the listing project and acquisitions carried out during the last part of the year.
Trade payables as at 31 December 2005 totaled €28,268 thousand and decreased by €5,503 thousand (– 16.3%) compared with 31 December 2004. The decrease is largely explained by the fact that trade payables were outstanding as at 31 December 2004 towards plant suppliers for the refurbishment of the Zignago Vetro furnace, which were paid in 2005.

The payables to suppliers of non-current assets as at 31 December 2006 totaled €2,963 thousand, against €1,991 thousand as at 31 December 2005.

	31.12.2006	31.12.2005
21 – Other current liabilities	**9,969**	**6,944**

The following table illustrates the composition of other current liabilities as at 31 December 2006 and 31 December 2005:

(in € '000)	31.12.2006	31.12.2005
Payables to social security institutions	2,380	1,854
Payables to personnel	6,580	4,873
Payables to institutions for welfare and association contributions	23	23
Payable for Metan (gas) swap hedge	296	0
Advances from customers	156	0
Payables for emission rights	70	0
Other payables	309	194
Accrued liabilities and deferred income:		
Interest expenses	135	0
Equipment grants	20	0
Total other current liabilities	**9,969**	**6,944**

The other current liabilities as at 31 December 2006 totaled €9,969 thousand, against €6,944 thousand as at 31 December 2005. The increase of €3,025 thousand includes €1,921 thousand for the changed scope of consolidation.

Payables to social security institutions

The payables to social security institutions refer mainly to payables for contributions owed on wages and salaries for the month of December, on agent commissions, and on freelance worker compensation owed for the half-year period and paid in the following half-year period.

Payables to personnel

The following table illustrates the composition of payables to personnel as at 31 December 2006 and 31 December 2005:

(in € '000)	31.12.2006	31.12.2005
Payables to personnel for unused holiday leave, monthly bonus, and accrued bonuses	5,260	3,020
Payables for December wages and salaries	1,320	1,273
Total payables to personnel	**6,580**	**4,293**

Payables to personnel for unused holiday leave, monthly bonus, and accrued bonuses refer to holiday leave accrued but not used at that date and the monthly bonus and executive bonuses accrued during the first half, which are paid in the year following the one in which they are accrued.

	31.12.2006	31.12.2005
22 – Payables for current taxes	**6,071**	**3,419**

(in € '000)	31.12.2006	31.12.2005
Payables for consolidated corporate income tax (IRES)	3,875	2,133
Withholding on employee and freelance worker income	1,032	682
Income tax	1,100	220
Other income taxes relating to foreign companies	64	384
Total payables for current taxes	**6,071**	**3,419**

The payables for income tax principally refer to the payable for current income taxes, net of the associated tax prepayments.

These payables refer to Verreries Brosse and Vetri Speciali, while for Zignago Vetro they are only for the regional business tax (IRAP). Zignago Vetro participated in the national tax consolidation program with the parent company IZSM. Thus, its IRES liabilities are included in "Payables for consolidated corporate income tax (IRES)."

COMMENTS ON THE PRINCIPAL ACCOUNTS OF THE INCOME STATEMENT

	31.12.2006	31.12.2005
23 – Revenues	**209,427**	**155,303**

The following table illustrates the breakdown of revenues by type of revenue:

	Balance at 31.12.2006	Balance at 31.12.2005
Core (i.e. ordinary) products	193,617	142,081
Sundry materials	10,401	8,658
Revenues for provision of services	4,357	3,787
Other	1,052	777
Total revenues	**209,427**	**155,303**

The following table illustrates the breakdown of revenues by region:

	Balance at 31.12.2006	Balance at 31.12.2005
Italy	145.664	106.882
European Union	40.706	30.431
Other countries	23.057	17.990
North America	*10.473*	*9.599*
Total revenues	**209.427**	**155.303**

Fiscal 2006, which reflects the changed scope of consolidation due to inclusion of Vetri Speciali (€39,863 thousand), shows an increase in revenues as against 31 December 2005. They rose from €155,303 thousand to €209,427 thousand (+ 34.9%). Sales to the Italian market rose from €106,882 thousand to €145,664 thousand (+ 35.3%). Sales to European Union countries rose by 33.8%. Sales in countries outside the European Union increased by 28.2%. Sales to North America increased by 8.6%.

	31.12.2006	31.12.2005
24 – Costs for raw & ancillary materials, consumables, and merchandise	**52,552**	**38,891**

The following table illustrates the costs for raw & ancillary materials, consumables, and merchandise:

(in € '000)	2006	2005
Purchases of raw materials	23,388	19,321
Purchases of merchandise for sale	13,489	10,402
Purchases of ancillary materials and consumables	9,059	5,623
Purchases of maintenance materials	5,008	4,892
Other purchases	3,073	2,827
Total purchases	**54,017**	**43,065**
Change in raw & ancillary materials, consumables and merchandise inventories	396	(86)
Change in work-in-progress, semi-finished, and finished products inventories	(1,741)	(4,088)
Enhancements of asset value as a result of in-house work	(120)	0
Costs for raw & ancillary materials, consumables, and merchandise	**52,552**	**38,891**

The increase in purchases recognized in fiscal 2006, which reflects the changed scope of consolidation due to inclusion of Vetri Speciali (€9,442 thousand; + 35.1%), is related to the increase in sales for fiscal 2006 from the previous year.

	31.12.2006	31.12.2005
25 – Costs for services	**58,631**	**43,358**

The following table illustrates the breakdown of costs for services:

(in € '000)	2006	2005
Energy costs	27,460	20,607
Transport costs	8,746	6,957
Outside services	9,777	5,439
Outsourced processing	7,071	5,015
Insurance for industrial risks and trade receivables	1,106	932
Commission expense	1,025	668
Services for personnel	921	770
Rentals and hires	694	574
Technical, legal, tax, and advisory services	334	385
Telephone, fax, and similar costs	308	257
Advertising and promotion	177	133
Compensation paid to corporate bodies	189	101
Others	823	1,520
Total costs for services	**58,631**	**43,358**

The general increase in costs for services in fiscal 2006, which reflects the changed scope of consolidation due to inclusion of Vetri Speciali (€9,242 thousand; + 35,2%) compared with the previous year, is mainly attributable to costs related to production activity.
The increase in energy costs must be highlighted: these rose from €20,607 thousand as at 31 December 2005 to €27,460 thousand as at 31 December 2006 (€4,551 thousand, stemming from consolidation of Vetri Speciali). This increase (+ 33.3%) is explained both by the previously described effect of higher sales and the increase in energy costs.
The costs of services for personnel include reimbursement of travel expenses and the costs for professional continuing education.
Rentals and hires reflect the costs of leasing buildings, mainly at the subsidiaries, and hardware in general.

	31.12.2006	31.12.2005
26 – Payroll & employee benefits	**45,058**	**35,461**

The following table illustrates the breakdown of costs for payroll & employee benefits:

(in € '000)	2006	2005
Wages and salaries	31,791	24,645
Social security and welfare contributions	11,403	9,422
Post-employment benefits	1,651	1,226
Other costs	213	168
Total payroll & employee benefits	**45,058**	**35,461**

Payroll & employee benefits as at 31 December 2006 was €45,058 thousand, compared with €35,461 thousand as at 31 December 2005.
The increase of €9,597 thousand (+ 27.1%) from the previous year principally reflects the changed scope of consolidation (€8,069 thousand stemming from Vetri Speciali), in addition to changes in labor costs and the higher number of hours worked. The following table illustrates the breakdown of Group employees.

As this table, which includes the entire number of Vetri Speciali employees, shows, the Group had 1,289 employees as at 31 December 2006, broken down as follows:

(in € '000)	2006	2005
Senior management	21	12
White-collar employees	292	191
Blue-collar employees	976	657
Total employees	**1,289**	**860**

	31.12.2006	31.12.2005
27 – Amortization and depreciation	**22,111**	**18,617**

The following table illustrates the breakdown of amortization and depreciation:

(in € ’000)	2006	2005
Depreciation of Property, plant and equipment	21,961	18,507
Amortization of intangible assets	150	110
Total amortization and depreciation	**22,111**	**18,617**

Amortization and depreciation in the fiscal year that ended 31 December 2006 totaled €22,111, compared with €18,617 thousand in the previous year, for an increase of €3,494 thousand. This change, representing an 18.8% increase, is entirely due to the changed scope of consolidation (€3,723 thousand).

	31.12.2006	31.12.2005
28 – Other operating costs	**2,346**	**1,717**

The following table illustrates the breakdown of other operating costs:

(in € ’000)	2006	2005
Accruals to provision for industrial risks	178	124
Accruals to supplemental customer indemnities	24	0
Accruals to provision for contractual risks	0	0
Accruals to provision for retirement indemnities	37	62
Accruals to provision for tax risks	0	0
Accruals for risk provisions	*239*	*186*
Accruals to provision for doubtful accounts	*195*	*144*
Sundry taxes	1,051	741
Losses on disposal of non-current assets	200	337
Association membership fees	252	197
Incidental expenses	274	55
Others	135	57
Other costs	*1,912*	*1,387*
Total other operating costs	**2,346**	**1,717**

The other operating costs as at 31 December 2006 totaled €2,346 thousand, compared with €1,717 thousand as at 31 December 2005.

	31.12.2006	31.12.2005
29 – Other operating income	**1,136**	**2,631**

The following table illustrates the breakdown of other income:

(in € '000)	2006	2005
Incidental income	467	366
Incidental income due to use of provisions	0	1,661
Gains on disposal of non-current assets	125	533
Recovery of costs of production	0	0
Others	544	71
Total other operating income	**1,136**	**2,631**

The other operating income as at 31 December 2006 was €1,136 thousand, compared with €2,631 thousand as at 31 December 2005. The decrease is mainly attributable to incidental income in 2005 from release of the technical risks provision at Zignago Vetro for €1,549 thousand.

The incidental income stems principally from differences in the amounts recognized upon preparation of the financial statements.
The gains from disposal of non-current assets stem mainly from Zignago Vetro for €115 thousand and Vetri Speciali for €10 thousand.

	31.12.2006	31.12.2005
30 – Financial income	**667**	**510**

The following table illustrates the breakdown of financial income:

(in € '000)	2006	2005
Bank interest income	473	502
Effect of fair value measurement	124	0
Other	70	8
Total financial income	**667**	**510**

Financial income in fiscal 2006 totaled €667 thousand, compared with €510 thousand in the previous year, for an increase of €157 thousand. The increase is principally due to the positive impact of fair value measurement of derivative instruments, in addition to the changed scope of consolidation.

	31.12.2006	31.12.2005
31 – Financial expenses	**2,787**	**576**

The following table illustrates the breakdown of financial expenses:

(in € '000)	2006	2005
Interest expenses on loans	1,291	550
Interest expenses on bank borrowings	915	0
Hedging expenses for Metan (gas) swap	296	0
Discounts and other financial expenses	254	9
Others	31	17
Total financial expenses	**2,787**	**576**

Financial expenses in fiscal 2006 increased by €2,787 thousand as against 31 December 2005 due to the accrual of €296 thousand to hedge the Metan (gas) swap agreement entered into by Zignago Vetro, the increased cost of money in fiscal 2006 from the previous year, and the effect attributable to accounting of loans according to the amortized cost method.

	31.12.2006	31.12.2005
32 – Income taxes	**12,274**	**7,806**

The following table illustrates the breakdown of income taxes, distinguishing the current component from deferred tax liabilities and assets:

(in € '000)	2006	2005
Current taxes	16,820	7,826
Deferred tax liabilities (assets)	(4,546)	(20)
Total income taxes	**12,274**	**7,806**

The following table illustrates the ratio of income taxes to pre-tax income and highlights the reconciliation of the theoretical and actual tax burden in each period considered:

(in € '000)	2006	2005
Income before taxes	27,689	19,659
Ordinary applicable rate	33.00%	33.00%
Theoretical tax burden	**9,137**	**6,487**
Permanent differences	326	(381)
Foreign company effect	37	0
Current corporate income tax (IRES)	**9,500**	**6,106**
Other taxes (including the regional business tax (IRAP)	2,774	1,700
Total effective tax burden	**12,274**	**7,806**
Effective tax burden	**44.3%**	**39.7%**

The accrual for income taxes in fiscal 2006, estimated according to current laws, was €12,274 thousand (44.3% of pre-tax income), compared with €7,806 thousand (39.7% of pre-tax income). The lower tax burden for fiscal 2005 is mainly due to the irrelevance for taxation of the provisions for tax risks released by Zignago Vetro, against which deferred tax liabilities had not been accrued, in addition to the different scope of consolidation.
The IRES and IRAP rates applied reflect the actual tax burden borne by the Company.

OTHER INFORMATION

Earnings per share

The share capital of Zignago Vetro as at 31 December 2006, which was fully subscribed and paid in, consist of 80,000,000 ordinary shares with a par value of €0.10 each.

The earnings per share for the years considered are as follows:

	2006	2005
Net income (in € '000)	15,415	11,853
Number of Zignago Vetro shares	80,000,000	80,000,000
Earnings per share (in euros)	**0.19**	**0.15**

For the sake of uniform presentation, the earnings per share for the years considered were calculated in reference to the number of Zignago Vetro ordinary shares outstanding as at 31 December 2006, which did not change during the periods considered. Also taking into consideration the stock split approved by shareholders in their meeting of 22 December 2006, there are no shares, options, or other rights on shares that might dilute the earnings per share.

Segment reporting

Following is the primary segment disclosure, i.e. by business segments, which coincide with the various legal entities.
The secondary segment disclosure – by geographic area – is not significant for the Group.

In particular, the following business units have been established:

– Zignago Vetro: this business unit is engaged in the production of glass containers for Food and Beverages and for Cosmetics and Perfumery;

– Verreries Brosse and its subsidiary Brosse USA: this business unit is engaged in the production of glass containers for high-end Perfumery;

– Vetri Speciali and its subsidiaries Vetri Speciali Iberica s.l. and Vetri Speciali Inc.: this business unit is engaged in the production of specialty glass containers, especially for wine, vinegar, and olive oil.

The principles applied for identification of the primary segments of activity were inspired, *inter alia*, by the ways in which the management manages the Group and assigns operating responsibilities.

The following table illustrates the breakdown of segment reporting by segment activities:

(in € '000)	2006				
	Zignago Vetro	Verreries Brosse	Vetri Speciali	(Eliminations)	Aggregate
Revenues	135,935	36,325	39,863	(2,696)	209,427
Amortization and depreciation	(14,878)	(3,510)	(3,723)	0	(22,111)
Operating income	17,840	2,499	9,441	85	29,865
Net income	9,913	1,102	4,319	81	15,415
Assets	132,333	35,334	63,065	(26,337)	204,395
Liabilities	75,677	27,364	40,715	(697)	143,059
Investments in:					
Intangible assets	(45)	(140)	(44)	0	(229)
Property, plant and equipment	(9,715)	(4,401)	(1,183)	0	(15,299)
Non-current financial assets	(21,471)	0	0	0	(21,471)

(in € '000)	2005			
	Zignago Vetro	Verreries Brosse	(Eliminations)	Aggregate
Revenues	125,086	30,931	(714)	155,303
Amortization and depreciation	(15,538)	(3,079)	0	(18,617)
Operating income	17,811	2,079	0	19,890
Net income	10,880	973	0	11,853
Assets	143,616	31,914	(4,059)	171,471
Liabilities	56,873	24,997	(59)	81,811
Investments in:				
intangible assets	(31)	(32)	0	(63)
Property, plant and equipment	15,477	3,702	0	19,179
Non-current financial assets	15	0	0	15

Related parties

The following table illustrates the breakdown of Zignago Vetro receivables from related companies at the closing date of each of the fiscal years presented:

(in € '000)	31.12.2006	31.12.2005
Industrie Zignago Santa Margherita SpA	0	0
Santa Margherita SpA and its subsidiaries	455	542
New High Glass Inc.	596	388
Linificio e Canapificio Nazionale SpA	150	201
Owens-Illinois Manufacturing Italy SpA	9	0
Multitecno Srl	0	1
Receivables from related parties	**1,210**	**1,132**

The following table illustrates the breakdown of Zignago Vetro payables to related parties at the closing date of each of the years presented:

(in € '000)	31.12.2006	31.12.2005
Fimiz Srl	3,875	0
Industrie Zignago Santa Margherita SpA	13	2,134
Santa Margherita SpA and its subsidiaries	74	84
New High Glass Inc.	9	8
Linificio e Canapificio Nazionale SpA	55	41
La Vecchia Scarl	16	60
Multitecno Srl	0	1
Owens-Illinois Manufacturing Italy SpA	8	0
Payables to related parties	**4,050**	**2,328**

The following table illustrates the breakdown of Zignago Vetro revenues from the related companies during the years presented:

(in € '000)	2006	2005
New High Glass Inc.	2,312	2,845
Santa Margherita SpA and its subsidiaries	2,851	2,468
Linificio e Canapificio Nazionale SpA	1,083	1,115
Owens-Illinois Manufacturing Italy SpA	70	0
Multitecno Srl	4	4
Industrie Zignago Santa Margherita SpA	0	0
Revenues from related parties	**6,320**	**6,432**

The following table illustrates the breakdown of Zignago Vetro costs paid to related companies during the years presented:

(in € '000)	2006	2005
Industrie Zignago Santa Margherita SpA	1,831	2,133
Linificio e Canapificio Nazionale SpA	318	277
La Vecchia Scarl	292	268
Santa Margherita SpA and its subsidiaries	160	155
New High Glass Inc.	0	8
Owens-Illinois Manufacturing Italy SpA	424	0
Multitecno Srl	10	4
Costs paid to related parties	**3,035**	**2,845**

Exchange rate risk hedging policies

During the periods presented, the Group did not hedge exchange rate risk since the transactions executed by the Group in foreign currencies were not considered significant.

Interest rate risk hedging policies

The Group entered into an interest rate swap (IRS) to hedge its interest rate risk on a medium to long-term loan. This agreement, made with the Banca Popolare di Vicenza and having an original notional value of €5,210 thousand (for its 43.5% share) expiring 1 January 2010, envisages semi-annual payment of a differential for interest, referring to the change in the 6-month Euribor rate with respect to a pre-set fixed interest rate of 5.33%.

Methane price risk hedging policies

On 3 November 2006, the Group entered into a methane swap agreement with the Cassa di Risparmio di Venezia as counterparty and an expiration date of 30 September 2007 in order to hedge the risk of changes in natural gas purchase prices for the period from January to September 2007. This agreement envisages a notional amount of 21,000,000 cubic meters, for a notional value of €4,252,500.

Transition to IFRSs

The Consolidated Financial Statements and the Aggregate Financial Statements prepared in compliance with the IFRSs that are presented in this prospectus are based on the financial statements of Zignago Vetro and its subsidiaries (including the company subject to joint control, Vetri Speciali). These financial statements have been restated in compliance with the IFRSs solely for preparation of the Consolidated Financial Statements and the Aggregate Financial Statements, whose transition date to IFRSs was 1 January 2004.

Optional exemptions and mandatory exceptions to application of IFRSs

Optional exemptions envisaged by IFRS 1 that were exercised upon first-time application of IFRSs:

- **business combinations**: Zignago Vetro and its subsidiaries did not apply IFRS 3 retrospectively to the business combinations carried out prior to the transition date to IFRSs;
- **measurement of property, plant, and equipment and intangible assets at fair value or, alternatively, at the cost revalued as the substitute value of cost**: Zignago Vetro and its subsidiaries applied the revalued cost as the substitute value of the cost and did not opt to measure property, plant and equipment and intangible assets at fair value;
- **employee benefit plans**: the actuarial gains and losses accumulated from the inception of the plans until transition to IFRSs were recognized directly in equity;
- **classification and measurement of financial instruments**: IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement are applied on a deferred basis at 1 January 2005, as allowed;
- **reserve for net exchange differences resulting from translation of the financial statements of consolidated companies operating in countries outside the eurozone**: Zignago Vetro and its subsidiaries did not exercise the exemption and maintained the net accumulated exchange differences stemming from the previous translations of the financial statements of the foreign companies as previously determined.

Mandatory exceptions envisaged by IFRS 1 for first-time application of IFRSs

- **elimination of financial assets and liabilities**: the financial assets and/or liabilities different from derivatives concerning transactions executed before 1 January 2004, which were eliminated from the financial statements prepared in accordance with Italian GAAPs, must not be recognized and thus restored on the financial statements;
- **estimates**: the estimates made at the date of transition to IFRSs must comply with the estimates made at the same date in accordance with Italian GAAPs (after adjustments to reflect any differences in accounting standards);

Selected treatment of accounting options envisaged by IFRSs

– **inventories**: in accordance with IAS 2, the cost of inventories must be determined by applying the FIFO or the weighted average cost method. Zignago Vetro and its subsidiaries opted to use the weighted average cost method;

– **measurement of property, plant and equipment and intangible assets**: following initial recognition of the cost, IAS 16 and IAS 38 envisage that these assets may be measured at cost (and depreciated or amortized) or at their fair value. Zignago Vetro and its subsidiaries decided to apply the cost method.

Events occurring after the end of the financial year

In February, Zignago Vetro will sell the electrical substation to the former parent company IZSM, without realizing a gain.

Report of the Independent Auditor

(Art. 156 – Legislative Decree 58 of 24 February 1998)

REPORT OF THE INDEPENDENT AUDITOR PURSUANT TO ARTICLE 156 OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

To the Shareholder of
Zignago Vetro SpA

1. We have audited the consolidated financial statements - consisting of the balance sheet, income statement, cash flow statement, statement of changes in equity, and of related explanatory notes - of Zignago Vetro SpA and its subsidiaries (Zignago Vetro Group) for the financial year ending on 31 December 2006. Responsibility for drawing up year-end financial statements lies with the directors of Zignago Vetro SpA. We are responsible for the professional opinion expressed on the year-end financial statements, based on this audit. The aforesaid consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) adopted by the European Union, for the purposes of inclusion in the prospectus to be prepared as part of the process of listing of the Zignagno Vetro SpA's ordinary shares on the Milan electronic equity market (Mercato Telematico Azionario), in the STAR segment, organised and managed by Borsa Italiana SpA, and exercising the possibility envisaged by Article 3, paragraph 2, of Italian Legislative Decree no. 38 of 28 February 2005.

2. We performed our work according to the standards and criteria for accounting audits recommended by the CONSOB (the Italian securities & exchange commission). In compliance with the aforesaid standards and criteria, the audit was planned and performed in order to acquire all elements necessary to ascertain whether consolidated year-end financial statements were flawed by material errors and whether, taken as a whole, they were reliable. The auditing processes includes a review, based on random sampling, of supporting documentation of the figures and information contained in year-end financial statements, together with an evaluation of the adequacy and correctness of the accounting policies applied and of the reasonableness of estimates made by the directors. We believe that the work performed provides a reasonable basis upon which to express our professional opinion.

   As regards the opinion concerning the previous year's consolidated financial statements, prepared in compliance with the same accounting standards, the figures of which are presented for the purposes of comparison as required by law, see our report issued on 31 July 2006.

3. In our opinion the consolidated financial statements of Zignago Vetro SpA as at 31 December 2006, identified in Paragraph 1 above - prepared for the purposes of inclusion in the prospectus as required by the European Regulation 809/2004/CE and exercising the possibility envisaged by Article 3, paragraph 2 of Italian

Legislative Decree no. 38 of 28 February 2005 – comply with the IFRSs adopted by the European Union. They have therefore been drawn up clearly and truthfully and fairly represent the Zignago Vetro Group's balance sheet, financial position, operating performance, changes in equity, and cash flows for the financial year ending on that date.

Treviso, 15 February 2007

Reconta Ernst & Young SpA
Michele Graziani
Partner

ZIGNAGO VETRO SpA

Registered office: Via Ita Marzotto, 8 – Fossalta di Portogruaro (VE) – Italy

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