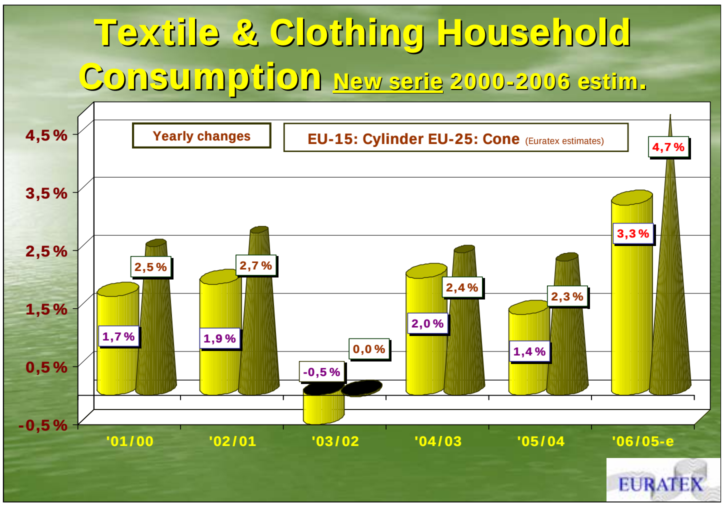
As usual it is a challenging task to present you the economic situation of our industry.

2006 has to be qualified as a “positive” year following several years of decrease and a dreadful 2005.

Indeed, last year the industry:

- Recorded a slight decrease in physical production after years of strong reduction. The development was “scattered” across Member States and in the various sub-sectors.
- Faced a partial re-vamping of the final consumption, in the EU and in certain major markets.
- Companies registered an improvement of their turnover and profitability thanks to the China quota management and the EU economic improved climate.

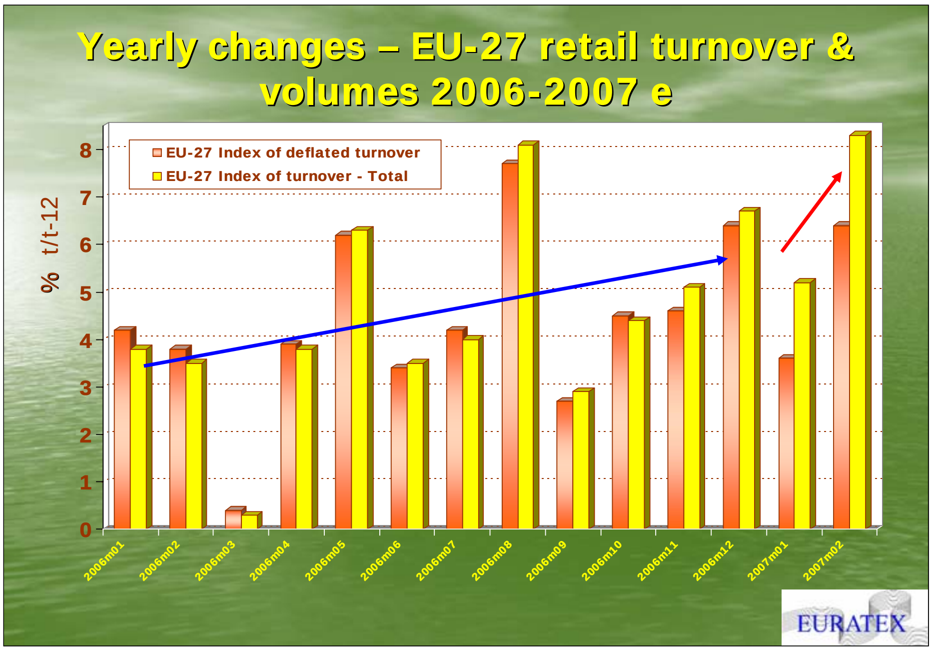
On top of those elements, we should stress that <u>once again</u> EU exporters have not been in a position to fully benefit from the positive developments of world demand due to unfavourable Euro/US dollar exchange rates and the continuing strong downward pressures on world prices.



2006 final consumption in the EU25 is estimated having increased by +4,7% thanks mainly to the dynamism of the consumption of the new member states that more than compensate the lower growth observed in the former EU-15 markets.

- Data available show that the EU-25 market size reached +/- 446 billions Euro and has grown on average by 2.1% during the 2000-2006 period. This being said there is confirmation of the catching–up trend observed in the New Member States as the annual average growth reached the +18% per year (!) during the last six year.

- In 2006, part of the consumption increase may be attributed to a small reduction of the consumer prices for clothing (-0.6%) – lower performance compared to 2005 (-0.9%). This average is masking divergent evolutions with strong reduction in consumer prices in UK, CZ, CY, LT, PL, IE while increasing very rapidly in GR, ES, EE, LV, RO, BG.
- To note that household textiles prices decreased by -0.8% contrary to carpet prices who went up by +0.4%.

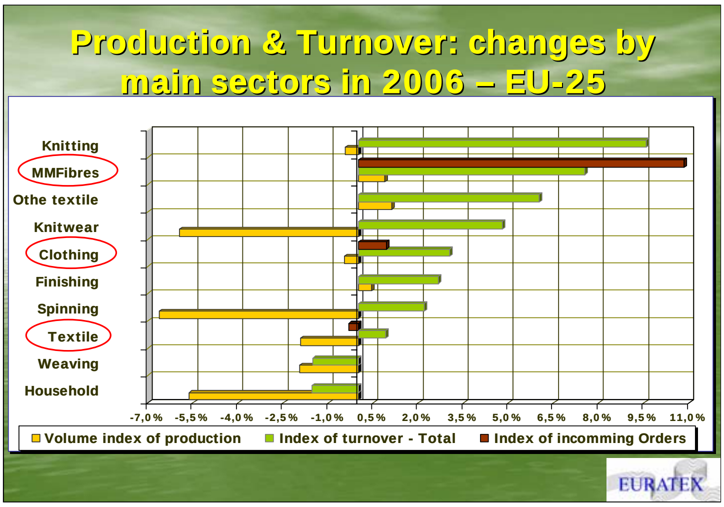


<u>Retail sales</u> in the EU 25 increased by +4.9% in value and by 4.4% in volume across 2006. This is a strong improvement compared to the last years. The first indications for 2007 show even stronger rhythm in growth both in values and volumes.

Last year, several Member States witnessed booming retailing situation with two-digit growth both in value and volumes rangiong from +11% to + 45% ! This happened only in the new member states or candidate countries:

CZ (14% vol. 11% val.) – EE (41% - 45%) – LV (42% - 43%) - LT (36% - 32%) – PL (30% - 21%) –SK (41%).

On the opposite several “old Member states registered a dull retailing scene, at least in volumes : IT, PT, LU & GR while DK registered a strong retailing scene all along 2006, like Sweden or Finland



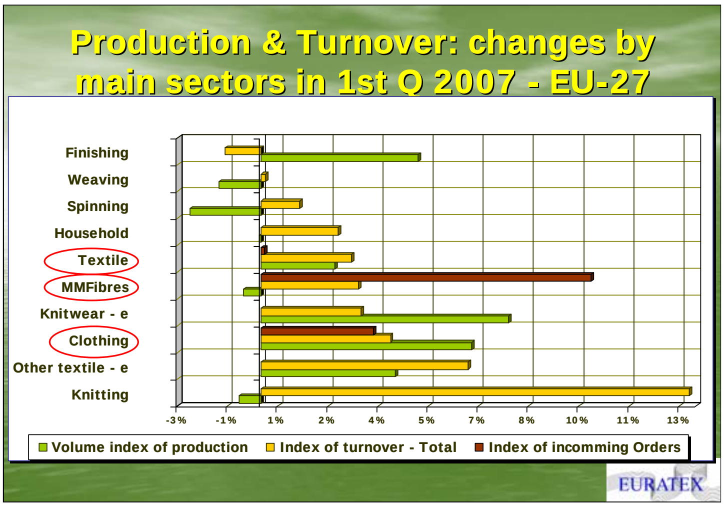
NOW what happened in the textile and Clothing industry pipeline ?

•Looking at individual **textile sectors** we notice that only manmade fibres together with special textiles and finishing activities were able to improve their position compared to the EU-25 average. On the other hand despite a real improvement in orders observed on a quarterly base during 2006, production continued to drop heavily in particular for spinning, knitwear and household products. Weaving and knitting are in a somewhat better position compared to 2005 despite continuing contraction in production.

•Contrary to the last two years, what is encouraging is that, as far as turnover is concerned most activities were able to stop the capital drain. Indeed on average margins improved in most sectors – excluding weaving and household textiles - with sectors like special textiles, manmade fibres or knitting industries registering turnover growth above the 5% threshold.

•For the **clothing** companies 2006 is also to be considered as a “positive” year : physical production stabilised while better market conditions allow them to compensate partially their losses in production with higher value added products, delocalisation of part of the production and slightly better price margins. All this explains the relative good increase in the turnover index.

•A far as **new orders** are concerned, 2006 has been a much more positive year in particular for the manmade fibres and to a lesser extend for clothing industry. The monthly data showed improvements across the year in particular for those two industries while textiles registered an halting of the decrease of their orders.



And what about the 1st quarter 2007 compared to the same period of 2006?

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•The situation remains positive as far as **new orders** are concerned. This is particularly the case for the man made fibres and clothing, while the positive developments in textile are much more limited

•This slight improvement is also valid for the **turnover** index which is growing across the industry except for spinning, weaving and knitting were price competition is fierce.

•Those positive evolutions translated in a positive **production trend** in particular for knitting, special textiles, clothing, knitwear as well as household textiles.

EU-25 Yearly evolution 2006
Textile & Clothing Industry

EU-25: 2006/2005	Textile	Clothing
Production Index	- 1,9 %	- 0.5 %
Production Price Index	+ 0,6 %	+ 1,1 % e
Turnover	+ 0,5 %	+ 1,7 %
Investment	- 2,2 %	+ 4,5 %
Employment	- 5,9 %	- 3,7 %

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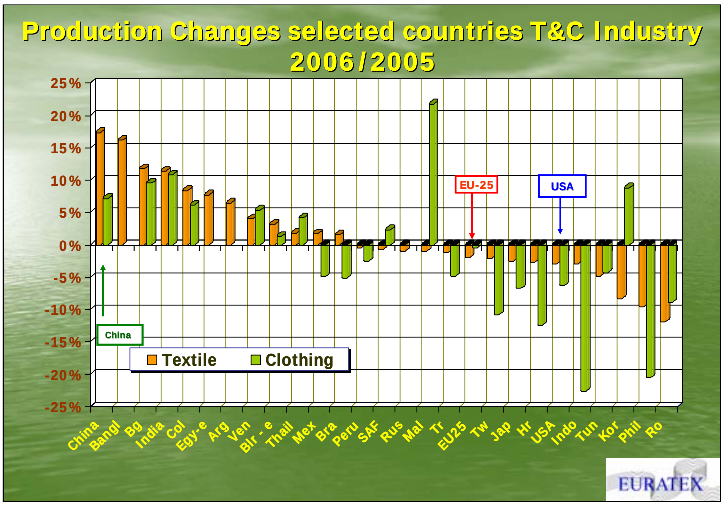
In summary :

- Contrary to 2005, the TC sector faced a growth in **production prices:** this was particularly the case for Clothing, reflecting may be a sharp increase of imported inputs used in the production process. As far as Textiles are concerned, the prices increased by a +0.6%.
- **Investment** stabilised at levels slightly higher than in 2005, with a strong increase in clothing investments thanks to the performances registered in the new member states. Textiles investments decreased across all Europe, but at a lower pace compared to 2006.
- Contrary to what happened in 2005, **turnover** increased slightly. Again, Textiles are in a somewhat less advantageous position, reflecting a stronger drop in production (compared to clothing) with more difficult pricing conditions. Here also certain new member states benefited from better results …
- Little surprise then that **employment** dropped again by nearly 136.000 employees compared to 2005 for the 25 member states, but the rhythm (-4.5%) is much lower than the one registered during the 2002-2005 period:
    - This year it is the textile (58% of the total) that registered the most negative development, due to heavy closures in the EU-15 textile companies for the 2nd year in a row.
    - Nearly 33% (a growing share) of the total losses where registered in the 10 new member states, mostly in clothing (+/- 62%).
    - In the EU-15 textile companies account for more than 67% of the job losses confirming an acceleration of the trends observed since 2002.



As we have seen the EU 2006 industry performance “improved slightly” and this also compared to most of its competitors as the graph shows. Clearly the “benchmark” remains China who recorded a two digit increase across the industry.

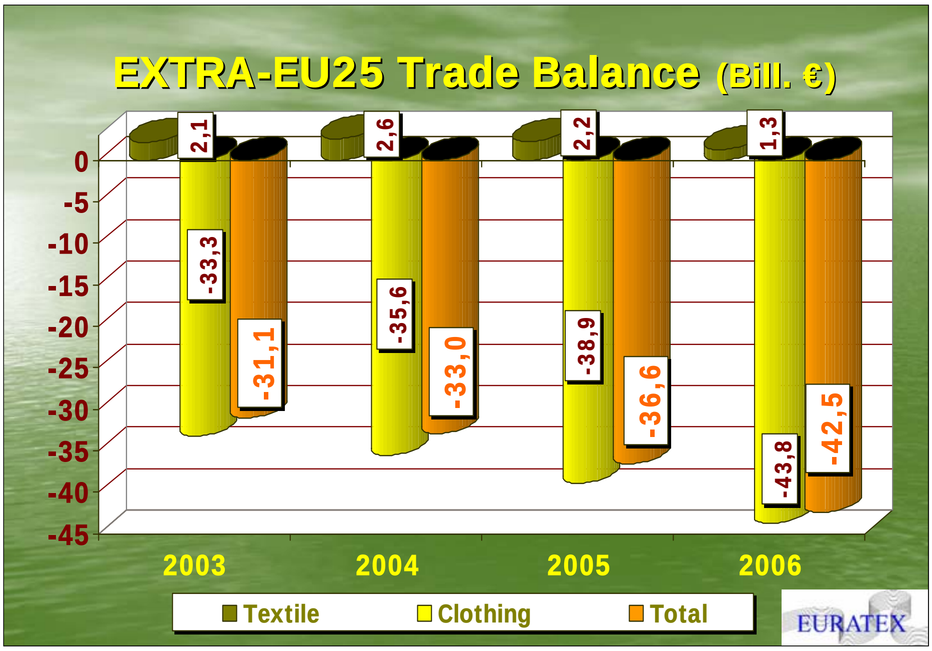
•In **textiles**, the changes have been positive for China, Bangladesh, India, Bulgaria, Colombia, Egypt, Argentina, Venezuela, Belarus and to a lesser extent for Thailand, Mexico or Brazil.

•In **clothing** industries performing better were fewer: Malaysia, Bulgaria, India, Korea, China and Colombia.

•In the **USA** production reduced much more rapidly than in the EU while employment is falling at rates much higher than the EU ones.

•As you can see Japan, as well as Taiwan, Indonesia, the Philippines or Peru faced an extremely difficult moment, while the situation was not so rosy for part of the industry in Brazil, Mexico, Korea or South Africa.

•As in 2005, the **Euromed area**, production decreases, more rapidly in the Clothing in particular in countries like Romania, Turkey, Croatia or Tunisia. For Belarus the situation seems also to be marginally positive.



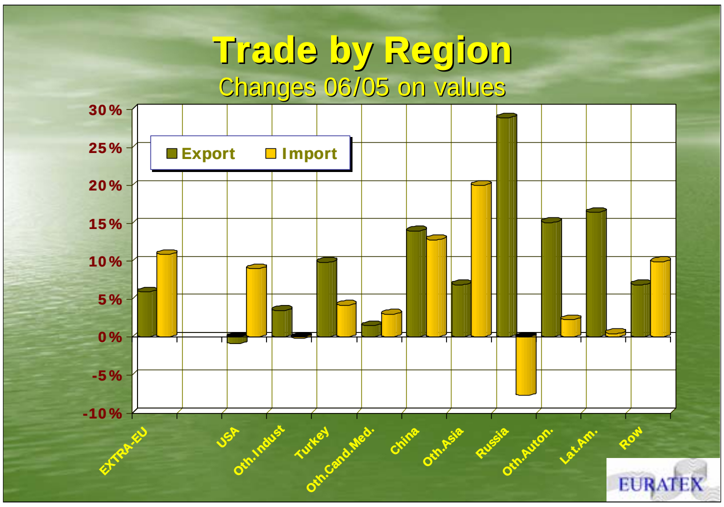
As already said: the abolition of the quota system, the EU positive economic climate and a negative Euro/US $ exchange rate evolution impacted heavily the overall trade balance of the EU-25 that reached the unprecedented level of -42.5 billion Euro or +15.8%.

•This is mainly the consequence of a much stronger growth in values of clothing imports (+11.5%) compared to garments exports (+8.8%) while textile imports expanded more rapidly (+9.2%) than exports (+4%) which is nevertheless a positive development.

•As a matter of consequence textile surplus decreased by -42% in value (!) while clothing deficit increased by a strong +12.5%.

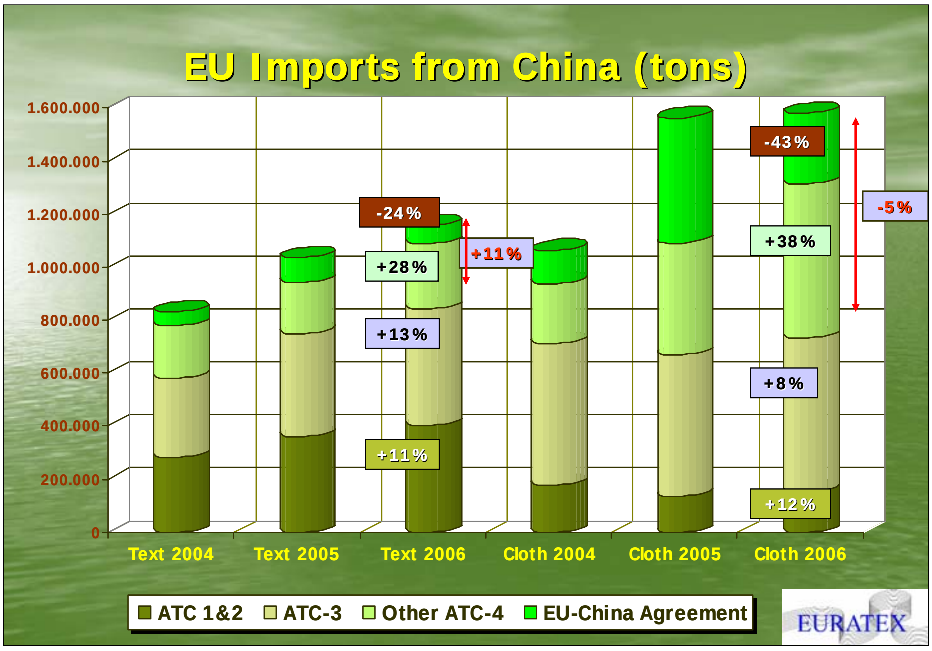
•**In price terms**, average export prices in Euro experienced a diverging evolution: -1.6% for textile and a double digit growth for clothing. On the contrary import prices increased quite rapidly: +5% for textile and + 2.3%% for clothing!

•It is important to stress the new member states have a positive IMPACT on EU trade: their trade balance has a surplus of nearly 800 millions Euro with the Extra-EU markets despite textiles registering a deficit of -155 millions Euro. This being said since 2004, those ten countries increased their export share in total Extra-EU from 7.7% to more than 9% and registered and impressive improvement of their surplus.



- While the **exports** to the USA, our first market, slowed down (-1%) EU exports increased strongly in value on all the other regions with a particular focus on Latin America (thanks to Mexico performances), on Russia to which we export for more than 3,5 billions Euro of products with nearly 29% value increase in 2006, (but be aware of the volumes trend). Also Candidate and Mediterranean clients bought more of our products thanks to Turkey attraction on EU products (greater growth in volumes). Finally, even Asia is attracting a growing attention from our exporters.
- Unfortunately, if I can say so, those results are mainly if not only due to Textile exports (Ch 50-60 + 63) while clothing exports are only important for Russia and industrialised countries. This is the effect of market access obstacles existing across the world that impede accessing the final consumers in the fast growing markets.
    - Few examples : India, our 51st client buy only 17 millions Euro of clothing products, more or less half of what we sell to Egypt or Brazil or 12% of clothing we sell to China (143 millions) our 21st clothing client.

- For the **imports**, the champions of the year are undoubtedly the Asian countries outside China. Those registered a two digit growth in 2006 both in volume and in value (+14%) terms. This rebalanced the overall supply to the EU that “benefited” to countries like Bangladesh, India, Vietnam, Indonesia, Malaysia, Pakistan, Hong Kong or Philippines.
- Interestingly all the other regions benefited also from a rebound in their export to the EU (Russia excluded) but we should recognise that the growth in value in certain case was very limited like for Latin America, for the Other industrialised countries or the Other Mediterranean countries
- Last piece of information end 2006, China controlled more than 27% of Extra-EU imports in volume, this the same level of 2006, but in value … China went up from 28,9% to nearly 29,5% in value!



I will not comment in detail the graph appearing on the screen as it speaks by itself confirming the extraordinary and unexpected situation (by the size and the fluctuations) the EU faced since 2005. It is worth mentioning that:

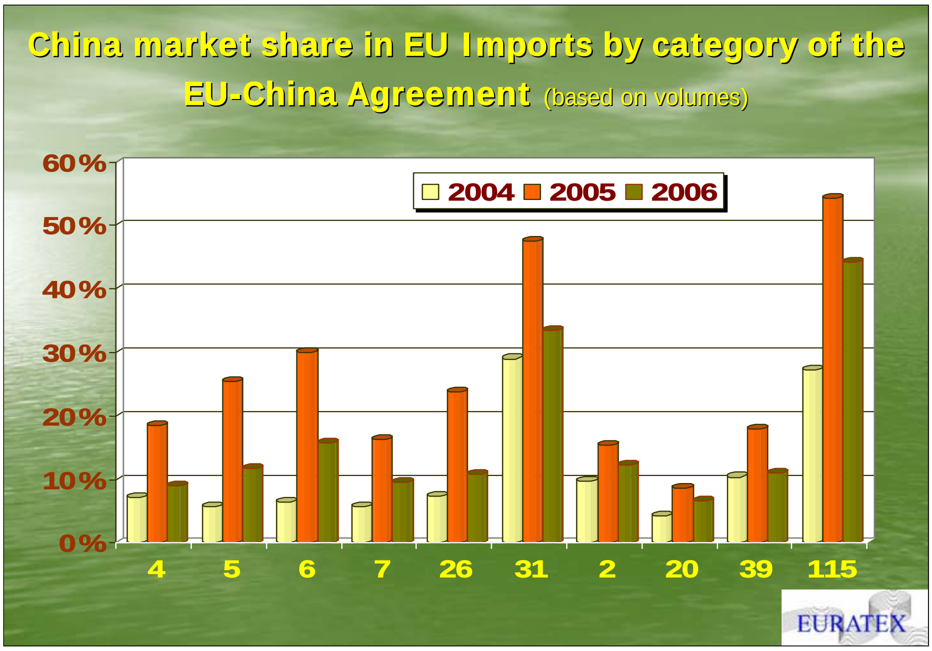
•Thanks to the agreement imports from China increased in volumes by only 142.000 tons compared to the 714.000 tons more observed in 2005;

•The implementation of the EU-China agreement impacted the share of **ATC Phase 4 products** Chinese exports to the EU in tonnage. Those went down by -5% in 2006 (from +40% in 2005).

•More importantly the **10 products under quota** covered 12% of the volumes imported last year from China against 22% in 2005 and 9% in 2004!

•Finally it worth mentioning that Chinese exporters switched to more High Value Added products with much higher prices in Euros compared to previous years.

- Indeed prices for Chinese imported products went up on average by +13% compared to a +3% for the total Extra-EU imports.
- This was even much more evident in the ATC 4 products where Chinese prices increased between +4% to +37%



This being said, when we focus on the 10 categories that are part of the EU-China agreement signed in Shanghai two years ago, we note that:

•While in 2005, China controlled between 9% to more than 54%! of Extra-EU-25 imports in those categories, end 2006 the range varies from 6% and 44%, levels.

•The most impressive decrease are the one in categories 5 (pullovers), 26 (dresses) and 4 (t-shirts) who divided by more than half while market share for category 2 (cotton fabrics) and 115 (flax yarns) decreased only by $1/5^{th}$.

- To sum up and based on Euratex members data and best estimates, Euratex considers that at the end of 2006 the overall size of the textile and clothing industry in the **EU-27** represents :

- A Turnover of more than 205.3 billions € an improvement of +1,3%
- Investments stabilised to more than 5.5 billion € .
- Exports by EU companies outside the EU continue to increase and are estimated to represent more than 21% of the turnover of Euratex members and remains nevertheless very healthy and a good sign of overall EU competitiveness.
- Estimates of the added value indicates that the industry reached nearly 63 billion € (+1,2%).
- The sector is represented by at least 186.000 companies. This represents a contraction of more than 11.000 companies or -5.7%!
- The industry employs still more than 2.6 million employees (- 4,9%).

On the slide you can see also the impact of the new enlargement to Romania and Bulgaria which bring to Europe an attracting place for investment, with relatively higher value added products and a huge reservoir of manpower.


Thank you
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