Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT AS OF MARCH 31st, 2006

Panariagroup Industrie Ceramiche S.p.A.
Via Panaria Bassa 22/A
41034 Finale Emilia (MO)
Tax Code and VAT number: 01865640369
www.panariagroup.it

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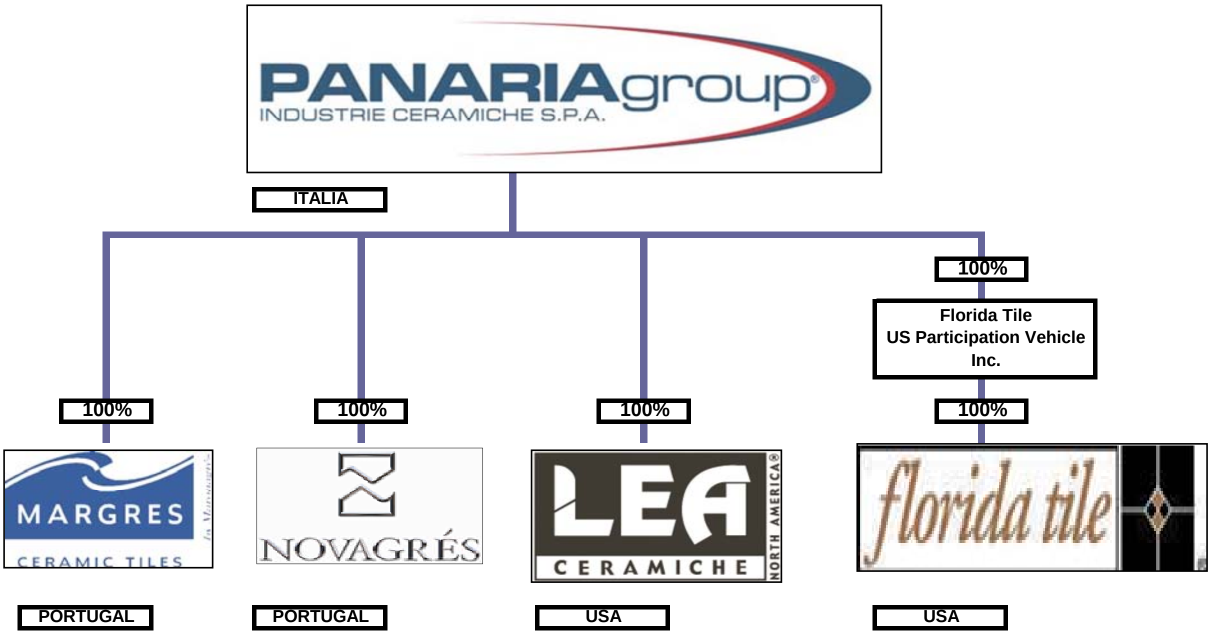
1. GROUP STRUCTURE

As of March 31st, 2006, the Group was structured as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena, Italy, with a fully paid-in share capital of Euro 22.677.645,50.
Panariagroup produces and distributes floor and wall ceramic tiles under 4 distinct brand names: Panaria, Lea, Cotto d'Este and Fiordo. All brands are positioned on the high and deluxe market segment, focused on porcelain grès tiles and sell their product lines both on the domestic as well as on foreign markets.

Maronagrês – Comércio e Indústria Cerâmica S.A., based in Ilhavo, Portugal, with a paid-in share capital of Euro 8,037,285.00, is fully owned by Panariagroup following its acquisition in October 2002. The Company is specialized in porcelain grès products and it is focused on the Portuguese market.
Maronagrês' product lines are sold under the brand name Margres.

Novagrês – Indústria de Cerâmica S.A., based in Aveiro, Portugal, with a paid-in share capital of Euro 2,500,000.00 is fully owned by Panariagroup following its acquisition in November 2005. The company is specialized in white body wall tiles and in porcelain grès products and is focused on the Portuguese and on the main European markets.

Lea North America Inc., based in, Charlotte, North Carolina, USA, with a paid-in share capital of USD 20,000, is wholly owned by Panariagroup.

The company, that was incorporated on June 22nd, 2004 by Ceramiche Artistiche Lea, started its activity in July 2005, and operates in the marketing and distribution of the Lea brand products in North America.

Florida Tile U.S. Participation Vehicle Inc. , based in Wilmington, Delaware, USA, with a paid-in capital of USD 6,000,000, is fully owned by Panariagroup Industrie Ceramiche S.p.A. The company is the holding for the US market and holds the participation in Florida Tile Inc.

Florida Tile Inc. based in Wilmington, Delaware, USA, with a paid-in capital of USD 6,000,000 that is fully owned by Florida Tile US Participation Vehicle, manufactures and distributes ceramic tile products in the US market through a directly managed distribution network mainly based on the East Coast.

It has to be noted that these last two companies has been incorporated in the context of the acquisition of Florida Tile's assets performed on February 24th, 2006 and largely illustrated in section 5.

The two new companies have not been consolidated at 31st March 2006, since the analysis to define the accounting value of the acquisition following the IFRS principles have not yet been concluded.

Furthermore, since the acquisition has been completed on February 24th, 2006, the possible consolidation would have been pertained to only one month of business.

The consolidation scope will be updated starting from 30th June 2006.

2. CORPORATE BOARDS

2.1 Board of Directors

Name and surname	Office	Place and date of birth
Giuliano Mussini	Chairman of the Board of Directors	Modena, 10/9/1930
Giovanna Mussini	Deputy chairman of the Board of Directors	Sassuolo (MO), 12/4/1959
Andrea Mussini	Managing Director	Sassuolo (MO), 15/5/1958
Emilio Mussini	Managing Director	Sassuolo (MO), 20/4/1961
Giuseppe Mussini	Managing Director	Sassuolo (MO), 23/11/1962
Paolo Mussini	Managing Director	Sassuolo (MO), 11/2/1958
Giuliano Pini	Managing Director	Modena, 21/5/1952
Marco Mussini	Director	Sassuolo (MO), 21/7/1971
Giovanni Burani(*)	Director	Parma, 20/10/1964
Alessandro Iori(*)	Director	Reggio Emilia, 15/6/1943
Paolo Onofri(*)	Director	Bologna, 11/11/1946

(*) Indipendent non-executive director

2.2 Board of Statutory Auditors

Name and surname	Office	Place and date of birth
Giovanni Ascari	Chairman of the Board of Auditors	Modena, 13/10/1935
Vittorio Pincelli	Standing auditor	Frassinoro (MO), 3/8/1943
Francesco Tabone	Standing auditor	Monza, 2/2/1956
Corrado Cavallini	Alternate auditor	Sassuolo (MO), 4/1/1971
Massimiliano Stradi	Alternate auditor	Sassuolo (MO), 16/3/1973

2.3 Independent Auditors

Deloitte & Touche S.p.A.

3. CONSOLIDATE P&L AND BALANCE SHEET

3.1 Consolidated Profit and Loss account

(First quarter)

(in € / 000)

1st QUARTER	**31/3/2006**	%	**31/3/2005**	%	**var.**
Revenues from sales and services	**75,220**	**94,76%**	**57,051**	**91,59%**	**18,169**
Changes in inventories of finished products	3,761	4,74%	4,903	7,87%	(1,142)
Addition to fixed assets	-	0,00%	-	0,00%	0,000
Other revenues	0,402	0,51%	0,336	0,54%	0,066
Value of Production	**79,383**	**100,00%**	**62,290**	**100,00%**	**17,093**
Raw, ancillary and consumable materials	(21,700)	-27,34%	(16,669)	-26,76%	(5,031)
Services, leases and rentals	(30,578)	-38,52%	(23,415)	-37,59%	(7,163)
Personnel costs	(13,192)	-16,62%	(11,121)	-17,85%	(2,071)
Changes in inventories of raw materials	0,349	0,44%	(0,008)	-0,01%	0,357
Other operating expenses	(0,674)	-0,85%	(0,618)	-0,99%	(0,056)
Cost of production	**(65,795)**	**-82,88%**	**(51,831)**	**-83,21%**	**(13,964)**
Gross operating profit	**13,588**	**17,12%**	**10,459**	**16,79%**	**3,129**
D%A expenses and impairments	(3,625)	-4,57%	(2,843)	-4,56%	(0,782)
Provisions	(0,330)	-0,42%	(0,388)	-0,62%	0,058
Net operating profit	**9,633**	**12,13%**	**7,228**	**11,60%**	**2,405**
Financial income and expense	(0,884)	-1,11%	0,371	0,60%	(1,255)
Pre-tax profit	**8,749**	**11,02%**	**7,599**	**12,20%**	**1,150**
Income taxes	(3,590)	-4,52%	(3,282)	-5,27%	(0,308)
Net profit for the period	**5,159**	**6,50%**	**4,317**	**6,93%**	**0,842**

3.2 Reclassified Balance Sheet

(in €/000)

	31/3/2005	31/12/2005
Inventories	104,736	101,364
Accounts Receivable	105,731	94,177
Other current assets	3,327	2,817
CURRENT ASSETS	**213,794**	**198,358**
Accounts payables	(66,905)	(61,323)
Other current liabilities	(33,831)	(29,461)
CURRENT LIABILITIES	**(100,736)**	**(90,784)**
NET WORKING CAPITAL	**113,058**	**107,574**
Goodwill	12,089	12,089
Intangible assets	0,569	0,551
Tangible assets	81,890	82,836
Equity Investments and other financial fixed assets	5,010	0,004
Intercompany financial credits	13,806	0,000
FIXED ASSETS	**113,364**	**95,480**
Receivables due after the following year	0,202	0,207
Provisions for termination benefits	(7,040)	(6,835)
Provisions for risks and charge and deferred taxes	(10,575)	(10,239)
Other payables due after the year	(2,232)	(2,357)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(19,645)**	**(19,224)**
NET CAPITAL EMPLOYED	**206,777**	**183,830**

Short term financial assets	(2,189)	(4,221)
Short term financial debt	36,558	40,503
NET SHORT TERM FINANCIAL DEBT	**34,369**	**36,282**
Mid-long term financial debt	23,791	4,371
NET FINANCIAL POSITION	**58,160**	**40,653**
Group Shareholders' Equity	148,617	143,177
SHAREHOLDERS' EQUITY	**148,617**	**143,177**
TOTAL SOURCES OF FUNDS	**206,777**	**183,830**

3.4 Net financial position

(in €/000)

	31/03/2006	31/12/2005
Securities	-	-
Cash and cash equivalents	(2,189)	(4,221)
Short term financial assets	**(2,189)**	**(4,221)**
Due to banks	35,246	39,249
Financial payables to holding companies	0,000	0,000
Due to other lenders	1,312	1,254
Short term financial debt	**36,558**	**40,503**
Due to banks	21,818	1,818
Due to other lenders	1,973	2,553
Due to bondholders	0,000	0,000
Mid-long term financial debt	**23,791**	**4,371**
Net financial position	**58,160**	**40,653**

4. NOTES TO THE ACCOUNTS

4.1 Accounting standards and criteria

This consolidated quarterly report has been prepared in compliance with art. 82 of the enacting Regulations of Law Decree no. 58 dated February 24th, 1998 governing issuers (Consob Resolutions no. 11971 dated May 14th, 1999 and following amendments), and specifically in keeping with Appendix 3D of said Resolution.
This report has not been audited.

Following the European Union regulation n.1606/2002, starting from First Consolidated Half Report 2005, the Group adopted the International Accounting Standard (IFRS), issued by International Financial Accounting Standards Board.
The present Quarterly Report includes comparative data referring to the corresponding period of 2005 that has been recomputed following the new accounting standards.

The accounting charts were prepared as of March 31st, 2006.

The accounting figures do not contain any estimates other than those normally used when preparing a set of annual accounts.

The amount contained herein are shown and commented upon in thousand Euro, unless expressly indicated otherwise.

4.2 Consolidation scope

In the moment of the editing of this quarterly report the analysis finalized at the determination of the fair value of the assets and liabilities assumed with the acquisition of Florida Tile Inc has not yet been completed. Therefore the two newly incorporated companies have not been included in the consolidation scope as of March 31st, 2006, given that the accounting of the business combination, as requested by the Accounting Principle IFRS n.3 has not yet been defined.

Furthermore, since the acquisition has been completed on February 24th, 2006, the possible consolidation would have been pertained to only one month of business.

Therefore, Panariagroup's participation in Florida Tile US Participation Vehicle Inc has been recorded at the acquisition cost.

The consolidation scope is unchanged from December 31th 2005 and includes:

- **Panariagroup Industrie Ceramiche S.p.A**., Parent Company;
- **Maronagres Comercio e Industria Ceramica S.A**., 100% owned, consolidated on a line by line basis;
- **Lea North America Inc.,** 100% owned, consolidated on a line by line basis;
- **Novagrês–Indústria de Cerâmica S.A**., 100% owned, consolidated on a line by line basis.

Novagres has been included in the consolidation scope from November 30th, 2005. Therefore the first quarter 2005 report did not include this company, while it is fully included in the first quarter 2006.
In the subsequent paragraphs will be highlighted the most important impacts coming from the change in the consolidation scope.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – First Quarter 2006
(in € / 000)

	31/3/2006	%	31/3/2005	%	var. €	var. %
Revenues from sales and services	**75.220**	**94.76%**	**57.051**	**91.59%**	**18.169**	**31.8%**
Value of Production	**79.383**	**100.00%**	**62.290**	**100.00%**	**17.093**	**27.4%**
Gross operating profit	**13.588**	**17.12%**	**10.459**	**16.79%**	**3.129**	**29.9%**
Net operating profit	**9.633**	**12.13%**	**7.228**	**11.60%**	**2.405**	**33.3%**
Pre-tax profit	**8.749**	**11.02%**	**7.599**	**12.20%**	**1.150**	**15.1%**
Net profit for the period	**5.159**	**6.50%**	**4.317**	**6.93%**	**0.842**	**19.5%**

The first quarter performances show a significant improvement in comparison with the first quarter 2005.

- **Consolidated net sales:** amounted to **75.2** million Euros, up by **31.8%** over the same period of 2005 (+ **15.6%** without Novagres).

- **Gross operating profit** amounting to **13.6** million Euros and **Net operating profit,** amounting to **9.6** million Euros, indicate a remarkable increase over 2005, respectively of **+ 29.9 %** and of **+ 33.3%**

- **Pre-tax profit:** was **8.7** million Euros, showing a **15.1%** increase over 2005 (+ 1.1 million Euros).

- **Net profit:** after estimated taxes, totalled **5.2 million** Euros, up **19.5%** (+ 0.8 million Euros) over December 2005.

Revenues

Net sales reported a growth rate of **31.8%** going from 57.0 million Euros in the first quarter 2005 up to 75.2 million Euros as of March 31st 2006 (+18.2 million Euros). The sales increase has been only partially driven by the consolidation of Novagres; sales increase with the same consolidation basis was 15.6%, or 8.9 million Euros.

Such a good results for the first quarter 2006 come from the consolidation of the growing trend shown in the second half of 2005 (and therefore this could be considered as a consolidated trend) and from an higher number of working days in the first quarter 2006, in comparison with the first quarter 2005.

Sales growth relates both to the Italian market and to the foreign markets: in Italy Panariagroup realized a turnover increase of 17.9% (15.5% without Novagres) while in the foreign markets the growth rate was 44.6% (16.5% without Novagres).

Following Novagres acquisition (and without the recently acquired Florida Tile), the first export market is Portugal, where Panariagroup is the most important player of the market: in the first quarter 2006, the group realized a turnover of 9.3 million Euros, with an important growth in comparison with the first quarter 2005 (6 million Euros, of which 4.9 relates to the consolidation of Novagres).

Very strong was also the performance of the US market, forecasted to become the first market of Panariagroup, after the acquisition of Florida Tile: Italian brands achieved in the first quarter 2006 an increase higher than 27%.

The 49.7% growth on European markets, other than Novagres' acquisition, come from the meaningful organic growth (+12.7%).

Shown below, is a summary table with a breakdown of sales by Panariagroup's major markets:

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

	Nation	*31/03/2006*	*31/03/2005*	*var.*	*%*
1	ITALY	30.501	25.870	4.631	17,9%
2	PORTUGAL	9.297	3.245	6.052	186,5%
3	FRANCE	7.640	5.025	2.615	52,0%
4	USA	6.081	4.775	1.306	27,4%
5	BELGIUM	4.715	4.090	625	15,3%
6	GERMANY	4.221	3.270	951	29,1%
7	HOLLAND	3.632	2.785	847	30,4%
8	SWITZERLAND	1.043	1.007	36	3,6%
9	UNITED KINGDOM	1.036	824	212	25,7%
10	GREECE	854	792	62	7,8%
	OTHERS	8.143	6.449	1.694	26,3%
	TOTAL	**77.163**	**58.132**	**19.031**	**32,7%**

** The table des not include the sales of Novagres (2005) and the sales of Florida Tile (2005 and 2006)*

The following table shows instead the breakdown of sales with the same consolidation scope (excluding in the first quarter 2006 Novagres' results):

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

	Nazione	*31/03/2006*	*31/03/2005*	*var.*	*%*
1	ITALY	29.881	25.870	4.011	15,5%
2	USA	6.081	4.775	1.306	27,4%
3	FRANCE	5.112	5.025	87	1,7%
4	BELGIUM	4.481	4.090	391	9,6%
5	PORTUGAL	4.406	3.245	1.161	35,8%
6	GERMANY	3.878	3.270	608	18,6%
7	HOLLAND	3.423	2.785	638	22,9%
8	SWITZERLAND	941	1.007	(66)	-6,6%
9	GREECE	809	792	17	2,1%
10	UNITED KINGDOM	793	824	(31)	-3,8%
	OTHERS	7.655	6.449	1.206	18,7%
	TOTAL	**67.460**	**58.132**	**9.328**	**16,0%**

** The table des not include the sales of Novagres (2005 and 2006) and the sales of Florida Tile (2005 and 2006)*

Other than the US, important growth rates has been achieved in **France** as a consequence of the acquisition of Novagres (that has a strong presence in this market), in **Belgium and Holland** that consolidated the growth process started in the second half 2005 and in **Germany**, particularly important given that in the last few years the performances of this market wasn't very good.

The performance of the 6 brands distributed by Panariagroup can be summarized as follows:

- The **Panaria** brand with an increase of **13.7%**, confirms the excellent trend reported in the entire 2005; the more remarkable results refer to the outstanding Italian market growth (+18.7%) and to the good results of the US market (+22.1%).

- The **Lea** brand reports an increase of **13.7%**, as a consequence of a widespread growth on the main markets, and in particular in the US (+30%); it has to be noted also the performances of the Italian (+12.3%) and the European markets (+8.4%)

- The **Cotto d'Este** brand fully confirms the positive signals of the second half 2005 and realized a growth higher than 20%, driven by the performance of the Italian market (+16.6%), of the European ones (+20%) and by the impressive results obtained in the overseas markets (US and Far East), in which sales almost doubled from the first quarter 2005.

- The **Fiordo** brand obtains an interesting growth, slightly lower than 10%, as a consequence of the development realized both on the domestic market (+10.1%) and on the European markets (+8%).

- The **Margres** brand, with a growth rate of over 25%, continues its growth path, mainly driven by the results obtained in the Portoguese market by advanced product lines that enabled the occupancy of important market areas.

- The recently acquired **Novagres**, consolidated only in the first quarter 2006, realized an increase in sales of 4%, that could be seen in a very positive way, given that the brand is in the middle of a transition under Panariagroup's management.

The product types distributed by the companies included in the consolidation scope are mainly two: porcelain gres and white body wall tiles; the single-fired floor tiles (not significant in 2006) refers to products no longer in catalogue.

Revenues by type of product (gross of customer incentives) (in thousand euro)

Type	*31/03/2006*	*31/03/2005*	*var.*	*%*
Porcelain gres	70'041	55'667	14'374	25.8%
%	90.8%	95.8%		
White body wall tiles	6'991	2'192	4'799	219.0%
%	9.1%	3.8%		
Single-fired floor tiles	131	273	(142)	-52.0%
%	0.2%	0.5%		
Total	**77'163**	**58'132**	**19'031**	**32.7%**

It has to be remarked the relevant increase obtained in the segment of “White body wall tiles”, mainly due to the acquisition of Novagres, since wall tiles represents about 50% of its sales.
The specialization of the Portuguese brand has to be considered as an excellent opportunity of development also for the Italian brands, that could use the technological know-how of Novagres in order to wide and to improve their wall tiles range of products.

It is forecasted that, with the consolidation of Florida Tile in the consolidation area, “Single fired foor tiles” and “White body wall tiles” will increase strongly.

Operating costs

The operating costs of 2006 totalized 65.8 million Euros, up 27.0% over last year (+ 14.0 million Euros). This variation is mainly determined by the following causes:

- the increase in the volume of production, that grew up of about 36% in comparison with the first quarter 2005 (of which 29% due to the Aveiro plant of Novagres);

- the further increase in energy costs (electricity and natural gas) whose unit average cost raised up of 30% over the first quarter 2005 figures. The negative impact on the cumulated Profit and Loss account, determined by the price effect, amounted in 1.6 million Euros.

Operating results

The **Gross operating profit** totalled **13.6 million Euros**, showing a significant increase of 3.1 million Euros compared with the first quarter 2005 (+29.9%).

The total amount of **Depreciation and amortization expenses and provisions**, was 4.0 million Euros. The increase in absolute value is mainly determined by the inclusion of Novagres accounts, while the incidence is substantially flat.

The **Net operating profit** reports a consistent increase of 2.4 million Euros (+ 33.3%)

The **Financial incomes and expenses** show a negative balance of 0.9 million Euros, while in the same period of the previous year reported a positive balance of 0.4 million Euros.

The decrease in the financial result is due to:

- the trend of Euro/Dollar exchange rate that generated significant gains in 2005.
- the increase in the Group's interest bearing loans mainly determined by the acquisition of Novagres (November 2005) and Florida Tile (February 2006), for a total consideration of 59 million Euros.

Net profit after estimated taxes amounts to 5.2 million Euros, with an increase of **19.5 %** (+0.8 million Euros) compared with the first quarter 2005 figures.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	31/3/2006	31/12/2005
Net Working Capital	**113,058**	**107,574**
Fixed assets	**113,364**	**95,480**
Assets / Liabilities due after year	**(19,645)**	**(19,224)**
NET CAPITAL EMPLOYED	**206,777**	**183,830**
Net Financial Position	**58,160**	**40,653**
Shareholders' equity	**148,617**	**143,177**
TOTAL SOURCES OF FUNDS	**206,777**	**183,830**

Net working capital

The Net Working Capital increase (5%) reflects the normal trend of the first quarter, especially for accounts receivables and inventory.

Investments

The level of assets increased from the beginning of the year of about 17.9 million Euros as a consequence of the subscription of Florida Tile US Participation Vehicle's share capital (5 million) and the shareholder loan that Panariagroup granted to Florida Tile Inc, in order to close the acquisition of the assets mentioned above.

Fixed assets investments totalled 3.0 million Euros, mainly addressed to the normal plant replacement cycle aiming at guaranteeing the maintenance and improvement of an efficient production of all the plants of the Group.

Net financial position

Financial cash flow	(millions of euro)
Net Financial Position as of 1/1/2006	**(40,7)**
Net Profit	5,2
D&A and Provisions	4,0
Internal operating cash flow	**9,1**
Change in net working capital	(5,5)
Dividend Distribution	0,0
Investments	(3,0)
Florida TIle acquisition effect	(18,8)
Other movements	0,7
Net Financial Position as of 31/03/2006	**(58,2)**

The Net Financial position reports a negative balance of 58.2 million Euros, with a negative change from the beginning of the year of about 17.5 million Euros, mainly due to the financial flow linked to Florida Tile acquisition, mentioned in the section “Investments”.

The Net Financial Position refers for about USD 17,8 millions to loans obtained in the US currency.

5. FLORIDA TILE ACQUISITION

During the first quarter 2006, Panariagroup closed an acquisition in the US market, finalized as follow:

- incorporation of “Florida Tile US Participation Vehicle”, a US Holding fully owned by Panariagroup Industrie Ceramiche S.p.A.
- Incorporation of “Florida Tile Inc.”, operating company fully owned by Florida Tile US Participation Vehicle.
- asset purchase for a total consideration of 22.5 million USD from Florida Tile Inc.

The acquired assets were previously owned by Florida Tile Industries Inc., company specialized in manufacturing and in distributing floor and wall ceramic tile in the US market. The company has been operating in the US market for over 50 years.

The most important acquired assets are:

- Florida Tile’s brand;
- a distribution center and a production plant located in Lawrenceburg – KY;
- a distribution chain of 26 branches, mainly located in the East Coast of the United States;
- the working capital (inventory, accounts receivables, accounts payables, current assets and liabilities).

As above mentioned, it is currently under way the analysis aimed at the definition of the fair value of the assets and liabilities acquired in connection with Florida Tile’s deal (closed on February 24th, 2006).

Given that the accounting of the business combination, as requested by the Accounting Principle IFRS n.3 has not yet been defined, the two newly incorporated companies have not been included in the consolidation scope as of March 31st, 2006.

Only with the aim of information, it is pointed out that since February 24th, 2006 and March 31st, 2006, the company obtained a turnover higher than 10 million dollars, consistent with the expectations.

At the end of March, the interest bearing liabilities for Florida Tile refer only to the shareholder loan granted by Panariagroup.

6. OPERATIONAL OUTLOOK FOR THE GROUP

For the next months the Group expect the continuation of the commercial and productive strategies, that substained the very strong revenues growth in the first quarter and will be in particular focused in the integration process of the two recently acquired companies (Novagres and Florida Tile).

7. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No Noteworthy events took place after the balance sheet date.