Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT
AS OF MARCH 31st , 2009

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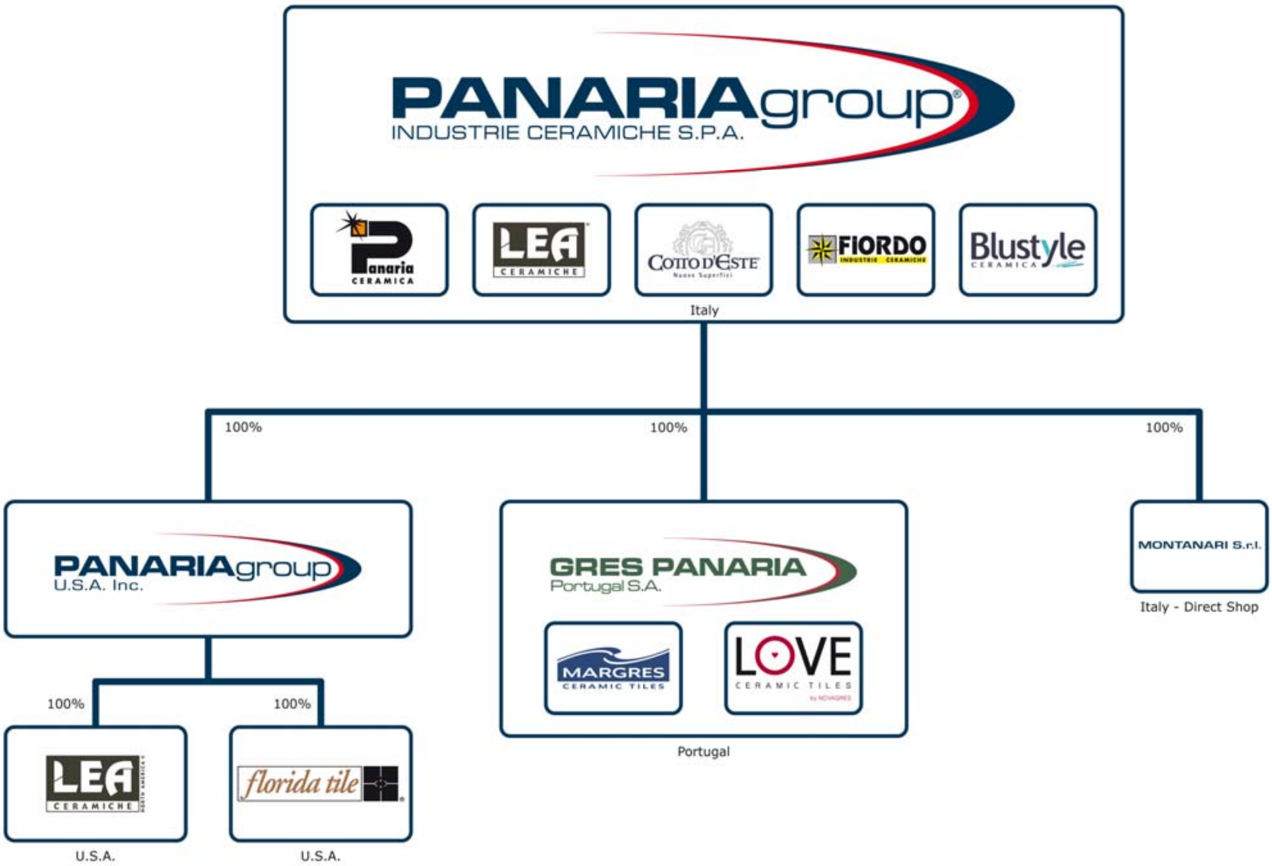
1. GROUP STRUCTURE

As of March 31st 2009, 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 5 distinct brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. All brands are positioned on the high and deluxe market segment, focused on porcelain grès tiles and sell their product lines both on domestic and on foreign markets.

Gres Panaria Portugal S.A., based in Chousa Nova, Ilhavo, Portugal, with a paid-in share capital of Euro 16,500,000.00, is fully owned by Panariagroup Industrie Ceramiche. Gres Panaria Portugal is specialized in white body wall tiles and in porcelain grès products and operates with 2 different brands, Margres and Love Tiles, both focused on the main European markets.

Panariagroup USA Inc., based in Delaware, USA, with a paid-in capital of USD 55,500,000.00, is fully owned by Panariagroup Industrie Ceramiche S.p.A. The company is the holding for the US market and controls the participations in Florida Tile Inc. and Lea North America LLC.

Florida Tile Inc. based in Delaware, USA, with a paid-in capital of USD 25,000,000.00, fully owned by Panariagroup USA Inc., manufactures and distributes ceramic tile products in the US market through a directly managed distribution network mainly based on the East Coast.

Lea North America LLC, based in Delaware, USA, with a paid-in share capital of USD 20,000, is wholly owned by Panariagroup USA Inc.
The company operates in marketing and distribution of the Lea brand products in North America.

Montanari srl, based in Crespellano, Bologna, Italy, with a paid-in share capital of Euro 48.000, is fully owned by Panariagroup Industrie Ceramiche. The company is a retail shop of ceramic material.

2. CORPORATE BOARDS

2.1 Board of Directors

Name and surname	Office	Place and date of birth
Emilio Mussini	Chairman of the Board of Directors	Sassuolo (MO), 20/4/1961
Giuliano Mussini	Deputy 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
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
Premoli Trovati Stefano	Standing auditor	Milano, 01/12/1971
Corrado Cavallini	Alternate auditor	Sassuolo (MO), 4/1/1971
Massimiliano Stradi	Alternate auditor	Sassuolo (MO), 16/3/1973

2.3 Independent Auditors

Deloitte & Touche S.p.A.

3. CONSOLIDATED P&L AND BALANCE SHEET

3.1 Consolidated Profit and Loss account

Cumulated as of March 31st 2009 and 2008

(in € / 000)

CUMULATED	31/3/2009	%	31/3/2008	%	var.
Revenues from sales and services	**71,369**	**99,68%**	**85,769**	**97,97%**	**(14,400)**
Changes in inventories of finished products	(1,417)	-1,98%	0,861	0,98%	(2,278)
Other revenues	1,643	2,29%	0,913	1,04%	0,730
Value of Production	**71,595**	**100,00%**	**87,543**	**100,00%**	**(15,948)**
Raw, ancillary and consumable materials	(20,563)	-28,72%	(22,320)	-25,50%	1,757
Services, leases and rentals	(28,297)	-39,52%	(34,045)	-38,89%	5,748
Personnel costs	(18,243)	-25,48%	(18,281)	-20,88%	0,038
Changes in inventories of raw materials	(0,073)	-0,10%	0,103	0,12%	(0,176)
Other operating expenses	(0,747)	-1,04%	(0,868)	-0,99%	0,121
Cost of production	**(67,923)**	**-94,87%**	**(75,411)**	**-86,14%**	**7,488**
Gross operating profit	**3,672**	**5,13%**	**12,132**	**13,86%**	**(8,460)**
D&A expenses	(4,221)	-5,90%	(4,368)	-4,99%	0,147
Provisions and impairments	(0,633)	-0,88%	(0,488)	-0,56%	(0,145)
Net operating profit	**(1,182)**	**-1,65%**	**7,276**	**8,31%**	**(8,458)**
Financial income and expense	(1,020)	-1,42%	(2,329)	-2,66%	1,309
Pre-tax profit	**(2,202)**	**-3,08%**	**4,947**	**5,65%**	**(7,149)**
Income taxes	(0,378)	-0,53%	(1,902)	-2,17%	1,524
Net profit for the period	**(2,580)**	**-3,60%**	**3,045**	**3,48%**	**(5,625)**
Cash Flow	**2,274**	**3,18%**	**7,901**	**9,03%**	**(5,627)**

3.2 Reclassified balance sheet

(in € / 000)

	31/3/2009	31/12/2008
Inventories	151,912	153,284
Accounts Receivable	98,325	96,197
Other current assets	7,410	6,769
CURRENT ASSETS	**257,647**	**256,250**
Accounts Payables	(60,521)	(65,078)
Other current liabilities	(33,908)	(32,642)
CURRENT LIABILITIES	**(94,429)**	**(97,720)**
NET WORKING CAPITAL	**163,218**	**158,530**
Goodwill	12,989	12,989
Intangible assets	3,758	3,757
Tangible assets	97,067	96,944
Equity Investments and other financial fixed assets	0,004	0,010
FIXED ASSETS	**113,818**	**113,700**
Receivables due after the following year	0,251	0,254
Provisions for termination benefits	(6,748)	(6,883)
Provisions for risks and charge and deferred taxes	(10,325)	(10,415)
Other payables due after the year	(2,175)	(2,573)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(18,997)**	**(19,617)**
NET CAPITAL EMPLOYED	**258,039**	**252,613**

Short term financial assets	(3,015)	(3,690)
Short term financial debt	69,459	78,288
NET SHORT TERM FINANCIAL DEBT	**66,444**	**74,598**
Mid-long term financial debt	39,165	24,530
NET FINANCIAL POSITION	**105,609**	**99,128**
Group Shareholders' Equity	152,430	153,485
SHAREHOLDERS' EQUITY	**152,430**	**153,485**
TOTAL SOURCES OF FUNDS	**258,039**	**252,613**

3.2 Net financial position

(in € / 000)

	31/03/2009	31/12/2008
Securities	-	-
Cash and cash equivalents	(3,015)	(3,690)
Short term financial assets	**(3,015)**	**(3,690)**
Due to banks	68,742	77,586
Financial payables to holding companies	-	-
Due to other lenders	0,717	0,702
Short term financial debt	**69,459**	**78,288**
Due to banks	38,979	24,154
Due to other lenders	0,186	0,376
Due to bondholders	-	-
Mid-long term financial debt	**39,165**	**24,530**
Net Financial Position	**105,609**	**99,128**

4 NOTES TO THE ACCOUNTS

4.1 Accounting standards and criteria

This consolidated quarterly report has been prepared in compliance with art.154-ter of the enacting Regulations of Law Decree no. 58/98 ("Testo Unico della Finanza" issued by Consob).

With reference to the recent rules regarding the Listed Companies with controlled companies resident in non-UE countries, we highlight that:

- As of March 31st 2009, there are 3 controlled companies non-UE resident: Panariagroup USA Inc. , Florida Tile Inc. and Lea North America LLC
- We adopted the procedures requested to be compliant with the new rules (art. 36 of the Market Regulation issued by Consob)

The Group adopted the International Accounting Standard (IFRS), issued by International Financial Accounting Standards Board. The accounting principles used for the preparation of this quarterly report do not differ from those used from the introduction of IFRS
The accounting figures do not contain other estimates than those normally used when preparing a set of annual accounts.

In connection with the US companies of the Group, no significant differences has been found between local accounting principle (US GAAP) and the accounting principle used for the consolidated financial report (IFRS).

The report has not been audited.

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

4.2 Consolidation scope

The consolidation scope includes:

- **Panariagroup Industrie Ceramiche S.p.A**., Parent Company;
- **Gres Panaria Portugal S.A**., 100% owned;
- **Panariagroup USA Inc.,** 100% owned;
- **Florida Tile Inc.,** 100% owned;
- **Lea North America LLC,** 100% owned;
- **Montanari Srl,** 100% owned;

All the subsidiaries are consolidated on a line by line basis.

The consolidation scope has not changed from December 31st 2008.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – Figure as of March 31st 2009

(in € / 000)

	31/3/2009	%	31/3/2008	%	var. €
Revenues from sales and services	**71,369**	**99,68%**	**85,769**	**97,97%**	**(14,400)**
Value of Production	**71,595**	**100,00%**	**87,543**	**100,00%**	**(15,948)**
Gross operating profit	**3,672**	**5,13%**	**12,132**	**13,86%**	**(8,460)**
Net operating profit	**(1,182)**	**-1,65%**	**7,276**	**8,31%**	**(8,458)**
Pre-tax profit	**(2,202)**	**-3,08%**	**4,947**	**5,65%**	**(7,149)**
Net profit for the period	**(2,580)**	**-3,60%**	**3,045**	**3,48%**	**(5,625)**

The quarterly results are the following:

- **Consolidated net sales** amounted to **71.4 million Euros**, down by **16.79%** in comparison with the same period of the previous year.

- **Gross operating profit** amounted to **3.7 million Euros** (12.1 million as of March 31st 2008), the **Net operating loss** is **1.2 million Euros** (net operating profit of 7.3 million as of March 31st 2008) and the **Consolidated net loss** is **2.6 million Euros** (net profit 3.0 as of March 31st 2008).

The Group profitability of the period is heavily influenced by the significant revenues reduction in the first quarter; the decrease is the natural consequence of the crisis that affected the worldwide economy and is anyway less than the decrease of the Italian ceramic industry.

The macro-economic framework is affected by a deep recession, still with an uncertain duration; in this deeply negative context, a further worsening of the situation has been noticed in the first quarter of 2009, both in the developed countries and in the emerging countries, and concerned quite all the industries.

The building construction suffered a significant decrease that conditioned negatively the ceramic industry performances: depending on the last survey on the first quarter of 2009 made by Confindustria Ceramica, the revenue decrease of the industry has been 23% (-16.8% the data of Panariagroup), and regarded all the marketplace.

Even worse are the effect of the crisis for the Spanish ceramic companies, which represent the main and more accredited European competitor for Italian producers, that lost more than 40% as regards 2008.

The generalized decrease of the raw materials costs and energy, the reduction in bank rate and the economic support of the central governments, did not still bring any visible effect on the restart of the demand. This favourable elements allow medium-term upturn expectations of recovery.

Revenues

The **Net sales** reported a fall of **16.8%** going from 85.8 million Euros as of March 31st 2009 down to 71.4 million Euros as of March 31st 2008 (- 14.4 million Euros).

Main reference markets

The turnover decrease was registered in all the principal Group markets and in all the Business Unit.

Sales in **European markets** decreased of about 5.8 million Euros (-16.7%), if compared with last year. In all the main traditional EU markets, except for Belgium (in line with 2008) we noticed significant drops: Germany -10.0%, France – 13.8%, Portugal -20.2%, Holland -18.6%, Spain -15.9%. The withdrawal of the Italian ceramic industry on European markets noticed by Confindustria Ceramica amounted to more than 20%.

The incidence of the European markets on the consolidated turnover is around 45%.

The **Italian market** decreased of about 5.9 million Euros if compared with the first quarter 2008 (-20.8%), in line with the performances registered by the Italian ceramic industry.
The incidence of the Italian market on the gross turnover amounted to 31%.

On the US market (the first one affected by the real estate recession) the crisis is not diminishing; according with the data quoted by U.S. Department of Housing and Urban Development, the decrease of new building and of new licences on the first quarter 2009 if compared with the same period in 2008 has been respectively of 48% and 45%. In this context, in the first quarter the Group had a sales decrease in dollars of about 25%. This decrease, in Euros is about -15.4%, thanks to the dollar reinforcement of about +13% if compared with the first quarter 2008.

The incidence of the **US market** on the consolidated turnover is around 18%.

Afterward are remarked the sales divided into the main Panariagroup markets.

Revenues by geographical areas (gross of customer incentives) (thousand euros)

rk	Nazione	31/03/2009	31/03/2008	var.	%
1	ITALY	22.435	28.334	(5.899)	-20,8%
2	USA	13.612	16.095	(2.483)	-15,4%
3	FRANCE	7.704	8.940	(1.236)	-13,8%
4	PORTUGAL	7.076	8.866	(1.790)	-20,2%
5	BELGIUM	4.883	4.863	20	0,4%
6	GERMANY	3.719	4.132	(413)	-10,0%
7	HOLLAND	2.749	3.376	(627)	-18,6%
8	CANADA	882	726	156	21,5%
9	SPAIN	796	946	(150)	-15,9%
10	UNITED KINGDOM	794	1.244	(450)	-36,2%
	OTHERS	8.201	10.280	(2.079)	-20,2%
	TOTAL	**72.851**	**87.802**	**(14.951)**	**-17,0%**

As previously stated, the table remarks the significant decrease on all the main markets.

Also the emerging economies, which might represent a good development opportunity for the Group , thanks to their expected growth trend and where the Group was starting new commercial activities, have been affected by the worldwide financial crisis, sometimes with reductions higher than West countries. In this areas the Group decreased in sales more than 20%.

As regards the Brand trends, all of them recorded a decrease compared with the first quarter 2008, with the best performance on the Portuguese Business Unit (-12%), a significant decrease on the Italian Business Unit (-19%) and a decrease of about 14% on the US Business Unit, attenuated by the favourable exchange rate.

The product types distributed by the Group are: the porcelain gres (the core business of Panariagroup), the white body wall tiles, the single-fired floor tiles (exclusively of Florida Tile).
The Florida Tile brand sells also non ceramic material.

The breakdown of sales by product class is:

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

Type of product	*31/03/2009*	*31/03/2008*	*var.*	*%*
Porcelain gres	61,384	73,227	(11,843)	-16,2%
%	**84,3%**	**83,4%**		
White body wall tiles	6,884	8,253	(1,369)	-16,6%
%	**9,5%**	**9,4%**		
Single-fired floor tiles	0,328	0,790	(0,462)	-58,5%
%	**0,5%**	**0,9%**		
Non ceramic material	4,254	5,532	(1,278)	-23,1%
%	**5,8%**	**6,3%**		
Totale	**72,851**	**87,802**	**(14,951)**	**-17,0%**

The decrease of "Porcelain gres" and of the "white body wall tiles" are in line with the general turnover decrease of the Group.

The "single-fired floor tiles" sales level is marginal and it regards the selling off of the last Florida Tile series.

The "Non ceramic material" is related to products sold by Florida Tile only, supplied to complete tiles' sale, such as natural stones and laying and fixing tile materials.

Operating results

The **Gross operating profit** totalled up **3.7 million Euros**, which represents 5.1% of the Value of Production (13.9% as of March 31st 2008).

The factors that mainly contributed to reduce the margins are:

- The considerable contraction of the turnover, which represented the higher penalization factor of the quarter: the decrease of the Gross operating profit determined by the drop in revenues is estimated of 5 million Euros;
- The decrease in volume of production due to the decrease of the demand, determined an estimated charge on the P/L o f about 1.5 million Euros; the lower production allowed the saving of the variable costs, but at the same time caused an higher incidence of the fixed costs on the Value of Production. The reduction of the production allowed the containment of the inventory avoiding an excessive weight of the Net Working Capital and of the Net Financial Position;
- the relevant growth of the energy costs (+26%), with a consequent increase in production costs of about 1.6 million Euros; the decrease in the Oil listing didn't still produce any effect on our energy cost, due to the indexing contract clauses that transfers the Oil trend on the prices gradually.

The actions made during the first quarter on the costs reduction, following the sales decrease, and the gradual effect of the Oil decrease in the energy costs, will allow a recover of profitability in the next months.

We also highlight the permanence of the economic difficulties of the US Business Unit that, starting from a negative profitability, had to face with a significant decrease in sales. Even on this area we have activated the necessary actions for a further optimization of the structure, the saving of costs and the control of the Net Working Capital.

The **Net operating loss** is of about 1.2 million Euros

The amount of Depreciation is aligned with the 2008 level, but with an higher incidence on the Value of Production (+1%), due to the reduction in revenues.

Thanks to the US dollar recover and to the decrease on the interest rates, the level of the Financial costs is significantly inferior as regards the first quarter 2008 (-56%, equal to a decrease of 1.3 million Euros).

The tax charge as of March 31st 2009 is equal to 0.4 million Euros even with a negative pre-tax result, due to the particular tax calculation foreseen by Italian IRAP.

The **Consolidated Net loss** amounts to about 2.6 million Euros.

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	31/3/2009	31/12/2008
Net Working Capital	**163,218**	**158,530**
Fixed assets	**113,818**	**113,700**
Assets / Liabilities due after year	**(18,997)**	**(19,617)**
NET CAPITAL EMPLOYED	**258,039**	**252,613**
Net Financial Position	**105,609**	**99,128**
Shareholders' equity	**152,430**	**153,485**
TOTAL SOURCES OF FUNDS	**258,039**	**252,613**

Net working capital

The Net Working Capital increased of about 4.6 million Euros from the beginning of the year, mainly for the decrease in the Trade payables (determined by the reduction in production), while the Trade receivables are slightly increasing (due to longer term of payment). The mentioned reduction of the production allowed to maintain under control the level of inventory..

Investments

The level of Fixed assets increased from the beginning of the year of about 0.1 million Euros.

The increase is due to:

- The net investments of the period, amounting to approximately 3.5 million Euros: these investments are related for 2.3 million Euros to technical investments in the Italian production plants, 1.0 million Euros in Portuguese plants and for about 0.2 million Euros in the US plant. Higher value of the Assets in Euros of the US consolidated Balance Sheet, due to revaluation of the US dollar, for 0.8 million Euros.
- The depreciation of the period of 4.2 million Euros.

Net financial position

Financial cash-flow statement
(thousands euro)

	31/3/2009
Net Financial Position - Beginning	**(99,128)**
Net profit (loss)	(2,580)
Depreciations and amortisations	4,221
Net Variation Provision	0,279
Operating cash-flow	**1,920**
Working Capital variation	(5,580)
Dividends	0,000
Net Investments	(4,345)
Others	1,524
Net Financial Position - Final	**(105,609)**

The Net Financial Position reports a negative balance of 105.6 million Euros, with a negative variation from the beginning of the year of about 6.5 million Euros. This increase is mainly due to the reduction of the operating cash-flow, and to the variation of the Net Working capital.

5. OPERATIONAL OUTLOOK FOR THE GROUP

Nowadays we haven't still recognised any sign of trend inversion of the negative cycle that hit the Worldwide economy, therefore it is difficult to make previsions about the evolution of the business, even with reference to our industry; our efforts will be even more focused on target of cost saving, reduction of the Net Working capital and control of the Net Financial Position. On the Sales side, even maintaining the maximum level of effort on the high-end and luxury segment, we have started supplementary commercial initiatives to expand our offer on a more extended segment and we believe this will produce some result already in the next quarter.

Even with this incertitude, the strength of our Group, both in structural terms than in market positioning, makes us confident about the ability to pass through this difficult economic cycle, and about our capability to catch the future opportunities. We will therefore go ahead with our identity of innovative company maintaining our focus on the R&D and continuing in investing in new technologies.

In particular, we highlight the restructuring process in the Fiorano plant for the realisation of the innovative equipment for the production of sheet of tiles with reduced thickness (3 millimetres) and with big sizes (3 meters by 1 meter). This project is considered strategic for the Group, for the evident potentiality of this type of product, the only one able to increase the volume of sales in 2009.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.