Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT
AS OF MARCH 31ST, 2010

Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia – ITALY
Fiscal Code, VAT Number: 01865640369 www.panariagroup.it

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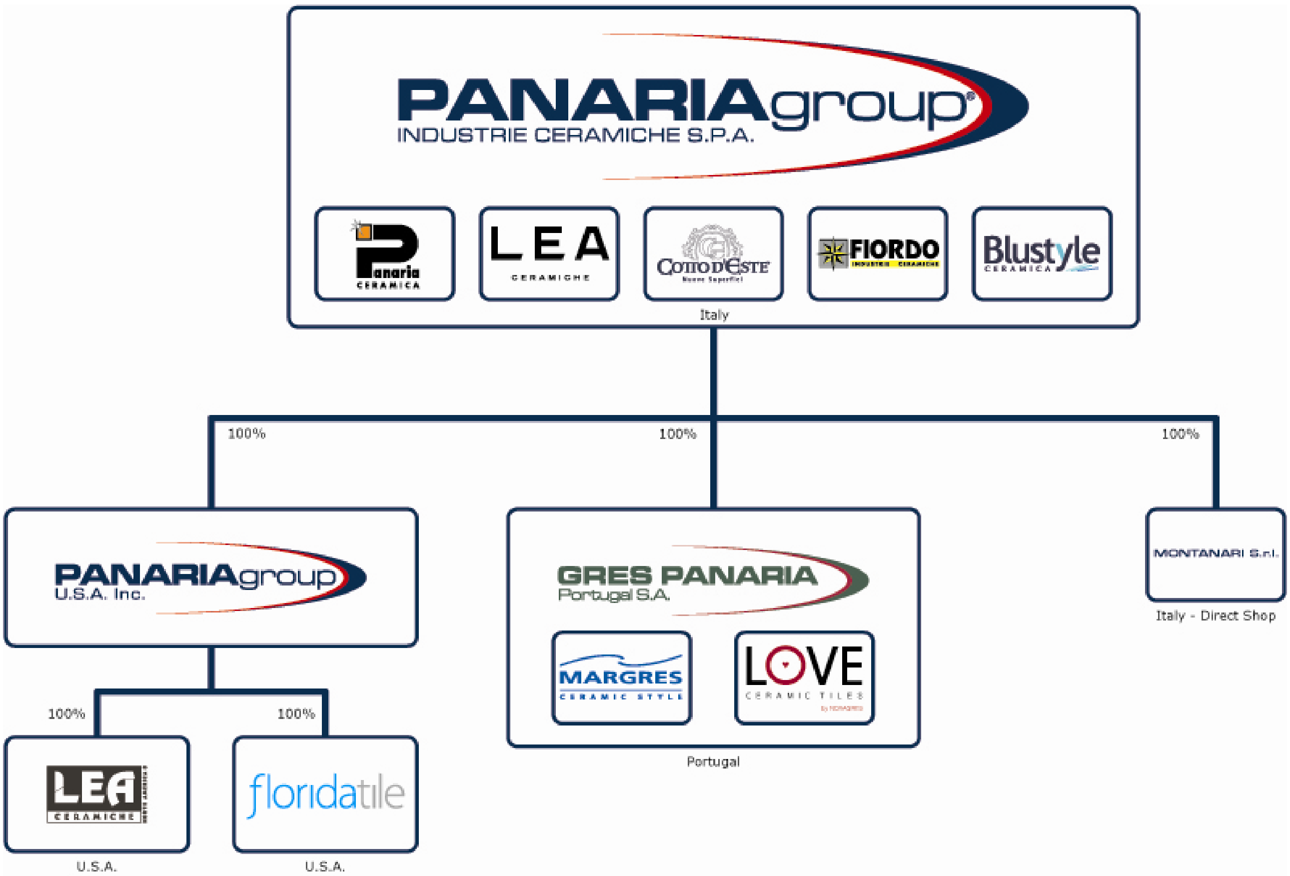
1. **GROUP STRUCTURE**

As of March 31st 2010, 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
Alessandro Iori(*)	Director	Reggio Emilia, 15/6/1943
Paolo Onofri(*)	Director	Bologna, 11/11/1946
Enrico Palandri(*)	Director	Milano, 2/10/1962

(*) 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 2010 and 2009

(in € / 000)

YTD	31/3/2010	% inc. VoP	31/3/2009	% inc. VoP	var.	var. % inc. VoP
Revenues from sales and services	**68,708**	**98,13%**	**71,369**	**99,68%**	**(2,661)**	**-1,6%**
Changes in inventories of finished products	0,419	0,60%	(1,417)	-1,98%	1,836	2,6%
Other revenues	0,889	1,27%	1,643	2,29%	(0,754)	-1,0%
Value of Production	**70,016**	**100,00%**	**71,595**	**100,00%**	**(1,579)**	**0,0%**
Raw, ancillary and consumable materials	(18,282)	-26,11%	(20,563)	-28,72%	2,281	2,6%
Services, leases and rentals	(27,808)	-39,72%	(28,297)	-39,52%	0,489	-0,2%
Personnel costs	(17,641)	-25,20%	(18,243)	-25,48%	0,602	0,3%
Changes in inventories of raw materials	0,061	0,09%	(0,073)	-0,10%	0,134	0,2%
Other operating expenses	(0,651)	-0,93%	(0,747)	-1,04%	0,096	0,1%
Cost of production	**(64,321)**	**-91,87%**	**(67,923)**	**-94,87%**	**3,602**	**3,0%**
Gross operating profit	**5,695**	**8,13%**	**3,672**	**5,13%**	**2,023**	**3,0%**
D&A expenses	(4,394)	-6,28%	(4,221)	-5,90%	(0,173)	-0,4%
Provisions and impairments	(0,632)	-0,90%	(0,633)	-0,88%	0,001	0,0%
Non-recurring Provisions	0,000	0,00%	0,000	0,00%	0,000	0,0%
Net operating profit	**0,669**	**0,96%**	**(1,182)**	**-1,65%**	**1,851**	**2,6%**
Financial income and expense	0,156	0,22%	(1,020)	-1,42%	1,176	1,6%
Pre-tax profit	**0,825**	**1,18%**	**(2,202)**	**-3,08%**	**3,027**	**4,3%**
Income taxes	(0,983)	-1,40%	(0,378)	-0,53%	(0,605)	-0,9%
Net profit for the period	**(0,158)**	**-0,23%**	**(2,580)**	**-3,60%**	**2,422**	**3,4%**
Cash Flow	**4,868**	**6,95%**	**2,274**	**3,18%**	**2,594**	**3,8%**

3.2 Reclassified balance sheet

(in € / 000)

	31/3/2010	31/12/2009	31/3/2009
Inventories	132,107	130,367	151,912
Accounts Receivable	92,780	87,478	98,325
Other current assets	6,841	6,699	7,410
CURRENT ASSETS	**231,728**	**224,544**	**257,647**
Accounts Payables	(58,658)	(57,104)	(60,521)
Other current liabilities	(28,298)	(28,265)	(33,908)
CURRENT LIABILITIES	**(86,956)**	**(85,369)**	**(94,429)**
NET WORKING CAPITAL	**144,772**	**139,175**	**163,218**
Goodwill	12,789	12,789	12,989
Intangible assets	3,383	3,376	3,758
Tangible assets	93,606	95,572	97,067
Equity Investments and other financial fixed assets	0,004	0,004	0,004
FIXED ASSETS	**109,782**	**111,741**	**113,818**
Receivables due after the following year	0,291	0,287	0,251
Provisions for termination benefits	(6,633)	(6,710)	(6,748)
Provisions for risks and charge and deferred taxes	(10,868)	(10,674)	(10,325)
Other payables due after the year	(0,576)	(0,524)	(2,175)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(17,786)**	**(17,621)**	**(18,997)**
NET CAPITAL EMPLOYED	**236,768**	**233,295**	**258,039**

Short term financial assets	(4,850)	(4,456)	(3,015)
Short term financial debt	41,254	38,179	69,459
NET SHORT TERM FINANCIAL DEBT	**36,404**	**33,723**	**66,444**
Mid-long term financial debt	52,111	53,058	39,165
NET FINANCIAL POSITION	**88,515**	**86,781**	**105,609**
Group Shareholders' Equity	148,253	146,514	152,430
SHAREHOLDERS' EQUITY	**148,253**	**146,514**	**152,430**
TOTAL SOURCES OF FUNDS	**236,768**	**233,295**	**258,039**

3.3 Net financial position

(in € / 000)

	31/03/2009	31/12/2009	31/03/2009
Securities	-	-	-
Cash and cash equivalents	(4,850)	(4,456)	(3,015)
Short Term Financial Assets	**(4,850)**	**(4,456)**	**(3,015)**
Due to banks	41,079	37,859	68,742
Financial payables to holding company	-	-	-
Due to other lenders	0,175	0,320	0,717
Short Term Financial Debt	**41,254**	**38,179**	**69,459**
Due to banks	52,103	53,028	38,979
Due to other lenders	0,008	0,030	0,186
Due to bondholders	-	-	-
Mid-long Term Financial Debt	**52,111**	**53,058**	**39,165**
Net Financial Position	**88,515**	**86,781**	**105,609**

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

- As of March 31st 2010, 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 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 2009.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – Figure as of 31st March 2010

(in € / 000)

	31/3/2010	%	31/3/2009	%	var. €
Revenues from sales and services	**68,708**	**98,13%**	**71,369**	**99,68%**	**(2,661)**
Value of Production	**70,016**	**100,00%**	**71,595**	**100,00%**	**(1,579)**
Gross Operating Result	**5,695**	**8,13%**	**3,672**	**5,13%**	**2,023**
Net Operating Result	**0,669**	**0,96%**	**(1,182)**	**-1,65%**	**1,851**
Pre-tax Result	**0,825**	**1,18%**	**(2,202)**	**-3,08%**	**3,027**
Net Result	**(0,158)**	**-0,23%**	**(2,580)**	**-3,60%**	**2,422**

The financial results of the period are the following:

- **Consolidated net sales** amounted to **68.7 million Euros**, down by **3.7%** in comparison with the end of March 2009.

- **Gross operating profit** amounted to **5.7 million Euros** (3.7 million as of 31st March 2009), the **Net operating Profit** was **0.7 million Euros** (-1.2 million as of 31st March 2009)

- **Pre-tax Result** was equal to 0.8 million Euros (negative pre-tax result of 2.2 million Euros as of 31st March 2009), with an improvement of more than 3 million Euros

- **Consolidated net loss** of **0.2 million Euros** (net loss of 2.6 as of 31st March 2009).

The first quarter 2010, even with a moderate reduction in sales, reached financial results in evident recovery in comparison with the first quarter 2009, with the pre-tax profit returning positive with an improvement of more than 3 million Euros.

The positive trend of the Group is not representative of a real recovery of the markets, in particular, the Western European Countries which are our main commercial outlet, are still in a weak stage.

The retrieval of the operating margins is due to the significant saves realised in industrial and commercial costs and to the adequacy of the organisation of the Group to the present market situation. In particular we concluded important rationalisations on Florida Tile structure during 2009 that will generate evident benefits in 2010.

Revenues

The **Net sales** reported a fall of **3.7%** going from 71.4 million Euros as of 31st March 2009 down to 68.7 million Euros as of 31st March 2010 (down 2.7 million Euros).

<u>Main reference markets</u>

During the first quarter, we registered non-homogeneous situations in the different markets served by the Group.

The Western Countries of the **European markets** are the ones that are more suffering the effects of the crisis in 2010. The drop in this areas was of about 2.8 million Euros, while the Eastern European Countries showed a good increase of more than 20% (+0.3 million Euros), for a total reduction in European sales of about 2.5 million Euros (-7.8%). In particular, we remark the difficulties of countries that traditionally are very important for the Group, such as Belgium (-25,7%), Holland (-25.1%) and Germany (-10,2%), while the French market and the Portuguese market are in line with the first quarter 2009.
The quote of the European markets on the consolidated sales is around 43%.

The **Italian market** is decreasing in the same measure of the Western European Countries: the drop of the first quarter 2010 was of about 8% (-1.8 million Euros).
The quote of the Italian market on the consolidated sales amounted to 29%.

The reduction of sales on the main European markets is without doubts due to a stagnation of the investments in constructions and to the presence on the market of an excessive stock of real estate properties, but it’s also attributable to the very bad weather conditions that especially in the first 2 months of the year heavily conditioned the practicability of the roads and the construction activities.

The **US market** is performing with an opposite trend, showing interesting signs of recovery in the last months in the main economic indicators and consequently in the Real Estate industry. On this market, the Group realised a significant increase of 13.1% in Usd (+2.3 million Usd), that is reduced to 6.6% if expressed in Euro currency, due to the depreciation of the US currency (6.1%) if compared with the first quarter 2009.
The quote of the **US market** on the consolidated turnover is around 21%.

Finally, we highlight the performance of the so called **Overseas areas** (Asia and Oceania), which still represent a limited share of our sales, but that registered an increase of over 30%, equal to about 1 million Euros.

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

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

rk	Nation	31/03/2010	31/03/2009	var.	%
1	ITALY	20,630	22,435	(1,805)	-8,0%
2	USA	14,511	13,612	0,899	6,6%
3	FRANCE	7,581	7,704	(0,123)	-1,6%
4	PORTUGAL	6,988	7,076	(0,088)	-1,2%
5	BELGIUM	3,630	4,883	(1,253)	-25,7%
6	GERMANY	3,338	3,719	(0,381)	-10,2%
7	HOLLAND	2,059	2,749	(0,690)	-25,1%
8	SPAIN	1,025	0,796	0,229	28,8%
9	GREAT BRITAIN	0,894	0,794	0,100	12,6%
10	AUSTRALIA	0,700	0,460	0,240	52,2%
	OTHERS	8,808	8,623	0,185	2,1%
	TOTAL	**70,164**	**72,851**	**(2,687)**	**-3,7%**

The table shows the trends already commented.

As regards the Brand trends, we highlight the good increase of the US Florida Tile and of the Portuguese Love Tiles, while the other brands recorded a moderate reduction in sales.

The distribution strategy very differentiated through 8 brands and the variety of the export Countries, joined with the internationalisation of the manufacturing activities effected in the previous years, allowed us a recover of marginality and a prudent management of the risk of credit.

The product types distributed by the Group are: the porcelain gres (the core business of Panariagroup) and the white body wall tiles.
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	*31/03/2010*	*31/03/2009*	*var.*	*%*
Porcelain gres	59,773	61,712	(1,939)	-3,14%
%	85,2%	84,7%		
White body wall tiles	6,974	6,884	0,090	1,31%
%	9,9%	9,4%		
Non ceramic material	3,417	4,254	(0,837)	-19,68%
%	4,9%	5,8%		
Totale	**70,164**	**72,850**	**(2,686)**	**-3,7%**

The "Porcelain gres" performance is in line with the Group's general trend of the sales, with a more relevant decrease for the traditional gres and an excellent performance of the new technologies.
The "white body wall tiles" realised a level of sales slightly higher than last year, thanks to the results of Florida Tile and Love Tiles.

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. The drop of this typology is the effect of the higher focus of the US Company on the sale of the Porcelain Gres realized in its Plant.

Operating results

The **Gross operating profit** totalled up **5.7 million Euros**, which represents 8.1% of the Value of Production (3.7 million Euros, equal to 5.1% as of 31st March 2009), **with a significant recovery of about 2 million Euros**.

The factors that mainly contributed to recover the margins are:

- The increase in volume of production in respect with the first quarter 2009 (+10,8%) that enabled a reduction of the unitary costs in particular regard with the fixed costs (personnel, leasing, etc.)
- The reduction of the energy costs, electricity and gas, that compared with the first quarter 2009 recorded an average drop of 9% and 31% respectively
- The saving on raw materials purchases, even for the effect of the reduction of the freight costs, due to the oil cost trend
- The containment of the marketing costs, deriving from the optimisation of the merchandising and commercial investments
- The rationalisation of the organizational structure to the current turnover of the Group, obtained through effectual optimisations of the internal processes and precise actions of personnel reduction or reemployment.

The **Net operating Profit** was of about 0.7 million Euros (negative for 1.2 million Euros as of 31st March 2010), **with an important increase of about 1.9 million Euros.**

The amount of Depreciation is slightly higher than 2009.

The Financial costs had a favourable trend with a relevant improvement compared to first quarter 2009, for the combined effect of the interest rate reduction, of the drop of the Net Financial debt and of the revaluation of the US currency in respect with the end of 2009.

The **Pre-tax Result** was positive for 0.8 million Euros (negative for 2.2 million Euros as of 31st March 2009), **with an improvement of more than 3 million Euros.**

The tax charge estimated was equal to 1.0 million Euros.

The **Consolidated Net loss** amounted to about 0.2 million Euros, recording an **evident improvement if compared with the result of the first quarter 2009** (equal to -2.6 million Euros).

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	31/3/2010	31/12/2009	31/3/2009
Net Working Capital	**144,772**	**139,175**	**163,218**
Fixed assets	**109,782**	**111,741**	**113,818**
Assets / Liabilities due after year	**(17,786)**	**(17,621)**	**(18,997)**
NET CAPITAL EMPLOYED	**236,768**	**233,295**	**258,039**
Net Financial Position	**88,515**	**86,781**	**105,609**
Shareholders' equity	**148,253**	**146,514**	**152,430**
TOTAL SOURCES OF FUNDS	**236,768**	**233,295**	**258,039**

Net working capital

The Net Working Capital is higher than the end of 2009, mainly for the typical seasonal trends of trade receivables and inventories. If compared with the first quarter 2009, the Net Working Capital is significantly lower (-18.4 million Euros, equal to -13.2%), without any reduction of the efficiency of the operations . In particular, we remark that, even in the actual difficult conjuncture, the comparison between trade receivable and turnover doesn’t show deterioration phenomena.

In connection with the level of stock, we recorded a slight increase from the year end balance due to the higher volumes manufactured but we confirm our targets of inventory containments in relation with the commercial needs.

Investments

The level of Fixed assets decreased from the beginning of the year of about 2.0 million Euros.

The decrease is due to:

- The net investments of the period, amounting to 1.3 million Euros: these investments are related for 0.9 million Euros to investments in the Italian Business Unit, 0.2 million Euros in the Portuguese Business Unit and for about 0.2 million Euros in the US Business Unit.
- Higher value of the Assets in Euros of the US sub-consolidated Balance Sheet, due to revaluation of US dollar from the beginning of the year, for 1.1 million Euros.
- The depreciations of the period of 4.4 million Euros.

Net financial position

Financial cash flow
(thousands euro)

	31/3/2010	31/12/2009	31/3/2009
Net financial position (debt) - beginning	**(86,781)**	**(99,128)**	**(99,128)**
Net Result	(0,158)	(4,607)	(2,580)
D & A	4,394	17,339	4,221
Net Variation Provisions	0,726	2,473	0,279
Internal operating Cash flow	**4,962**	**15,205**	**1,920**
Change in net working capital / Other assets and liabilities	(6,154)	14,892	(5,580)
Dividend distribution	0,000	(1,348)	0,000
Net Investments	(1,370)	(15,918)	(4,345)
Other movements	0,828	(0,484)	1,524
Net financial position (debt) - final	**(88,515)**	**(86,781)**	**(105,609)**

The Net Financial Position slightly worsened from the beginning of the year, mainly for the seasonal trend of the Net Working capital; on the other hand, if compared with the first quarter 2009, we observe a reduction of the Financial debt of about 17 million Euros.

Even in 2010 the Group will continue to pursue the target of reduction of the Financial Debt, successfully realised last year, through the cost containment and the inventory reduction.

Furthermore, the significant investments realized in the previous years, will allow us to reduce the addition in assets during 2010, with a better utilisation of the existing manufacturing structure and a consequent positive impact on the Net Financial Position.

5. OPERATIONAL OUTLOOK FOR THE GROUP

The results obtained in the first quarter of 2010 confirm the solidity of the business of the Group and considering the context of uncertainty that still involves the world economy, they can be considered really satisfactory. In the next months we can assume a stability of the economic scenario, therefore the strategies of the Group will focus on the optimisation of the costs, on the defence of the European traditional markets, on the development of the emerging countries, through more dedicated commercial actions; we trust also on the progressive recovery of the US market where the Group is operating with a structure in condition to collect quickly each opportunity.

The adequacy of the structure to the actual level of sales, joined with the expected recovery of the turnover on some important markets, should enable us to confirm the significant increase in margins also in the next future.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.