Panariagroup Industrie Ceramiche S.p.A.

QUARTERLY REPORT AS OF MARCH 31ST, 2011

Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia – ITALY
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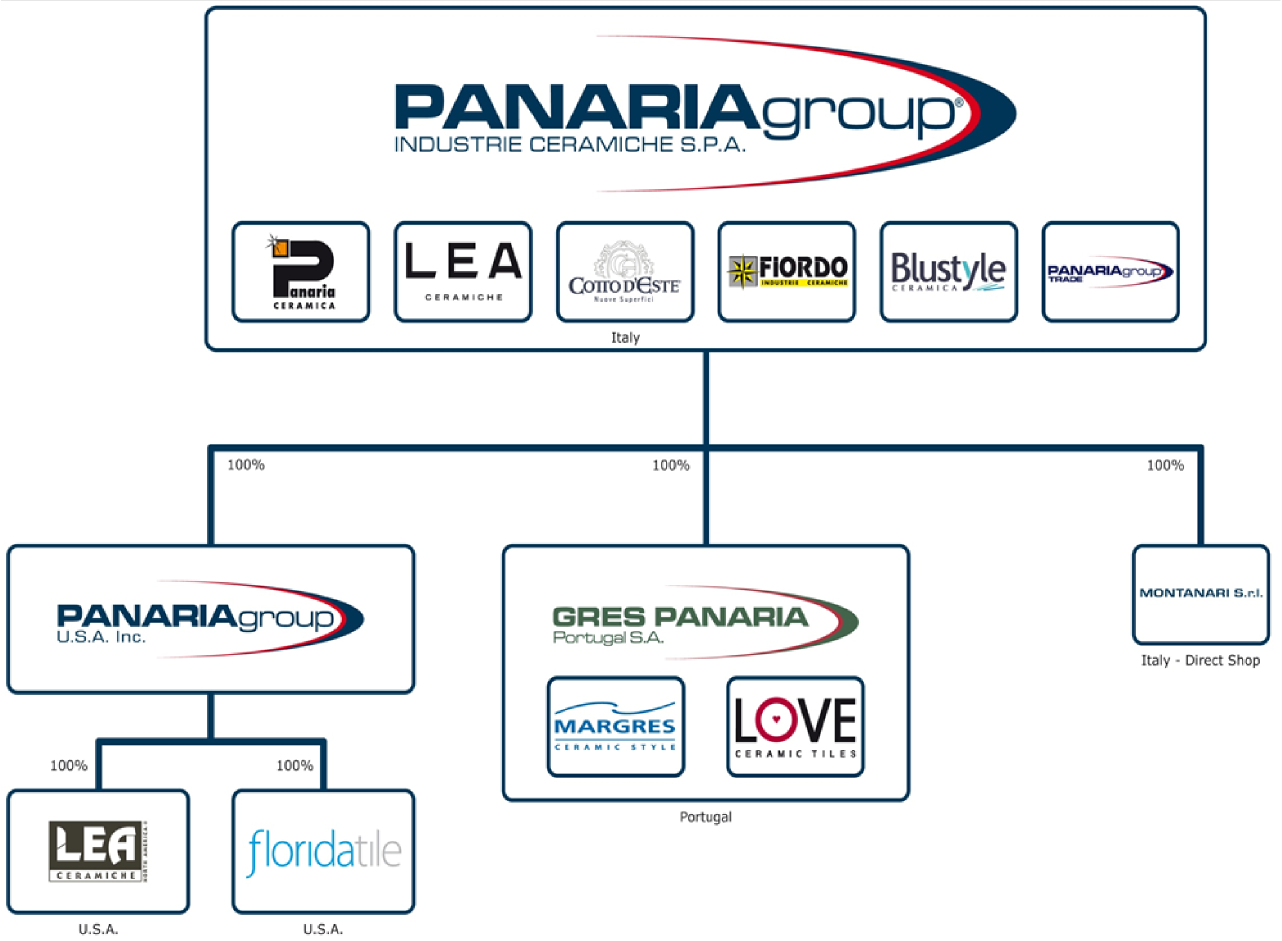
1. GROUP STRUCTURE

As of March 31st 2011, 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 controls the participations in Florida Tile Inc. and Lea North America LLC.
Furthermore the company operates in marketing and distribution of the Panaria brand products in North America.

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	31/3/2011	%	31/3/2010	%	var.
Revenues from sales and services	**72,375**	**95,87%**	**68,708**	**98,13%**	**3,667**
Changes in inventories of finished products	1,963	2,60%	0,419	0,60%	1,544
Other revenues	1,156	1,53%	0,889	1,27%	0,267
Value of Production	**75,494**	**100,00%**	**70,016**	**100,00%**	**5,478**
Raw, ancillary and consumable materials	(20,936)	-27,73%	(18,282)	-26,11%	(2,654)
Services, leases and rentals	(29,183)	-38,66%	(27,808)	-39,72%	(1,375)
Personnel costs	(18,367)	-24,33%	(17,641)	-25,20%	(0,726)
Changes in inventories of raw materials	0,073	0,10%	0,061	0,09%	0,012
Other operating expenses	(0,692)	-0,92%	(0,651)	-0,93%	(0,041)
Cost of production	**(69,105)**	**-91,54%**	**(64,321)**	**-91,87%**	**(4,784)**
Gross operating profit	**6,389**	**8,46%**	**5,695**	**8,13%**	**0,694**
D&A expenses	(4,091)	-5,42%	(4,394)	-6,28%	0,303
Provisions and impairments	(0,692)	-0,92%	(0,632)	-0,90%	(0,060)
Non-recurring Provisions	0,000	0,00%	0,000	0,00%	0,000
Net operating profit	**1,606**	**2,13%**	**0,669**	**0,96%**	**0,937**
Financial income and expense	(1,424)	-1,89%	0,156	0,22%	(1,580)
Pre-tax profit	**0,182**	**0,24%**	**0,825**	**1,18%**	**(0,643)**
Income taxes	(0,533)	-0,71%	(0,983)	-1,40%	0,450
Net profit for the period	**(0,351)**	**-0,47%**	**(0,158)**	**-0,23%**	**(0,193)**
Cash Flow	**4,432**	**5,87%**	**4,868**	**6,95%**	**(0,436)**

3.2 Reclassified balance sheet

(in € / 000)

	31/3/2011	31/12/2010	31/3/2010
Inventories	135,440	134,943	132,107
Accounts Receivable	90,319	83,647	92,780
Other current assets	8,846	8,095	6,841
CURRENT ASSETS	**234,605**	**226,685**	**231,728**
Accounts Payables	(60,098)	(59,947)	(58,658)
Other current liabilities	(27,807)	(27,145)	(28,298)
CURRENT LIABILITIES	**(87,905)**	**(87,092)**	**(86,956)**
NET WORKING CAPITAL	**146,700**	**139,593**	**144,772**
Goodwill	12,789	12,789	12,789
Intangible assets	2,926	3,187	3,383
Tangible assets	86,923	90,218	93,606
Equity Investments and other financial fixed assets	0,004	0,004	0,004
FIXED ASSETS	**102,642**	**106,198**	**109,782**
Receivables due after the following year	0,270	0,278	0,291
Provisions for termination benefits	(6,423)	(6,440)	(6,633)
Provisions for risks and charge and deferred taxes	(9,609)	(10,294)	(10,868)
Other payables due after the year	(0,536)	(0,560)	(0,576)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(16,298)**	**(17,016)**	**(17,786)**
NET CAPITAL EMPLOYED	**233,044**	**228,775**	**236,768**

Short term financial assets	(3,571)	(2,328)	(4,850)
Short term financial debt	49,900	37,190	41,254
NET SHORT TERM FINANCIAL DEBT	**46,329**	**34,862**	**36,404**
Mid-long term financial debt	38,894	43,740	52,111
NET FINANCIAL POSITION	**85,223**	**78,602**	**88,515**
Group Shareholders' Equity	147,821	150,173	148,253
SHAREHOLDERS' EQUITY	**147,821**	**150,173**	**148,253**
TOTAL SOURCES OF FUNDS	**233,044**	**228,775**	**236,768**

3.3 Net financial position

(in € / 000)

	31/03/2011	31/12/2010	31/03/2010
Securities	-	-	-
Cash and cash equivalents	(3,571)	(2,328)	(4,850)
Short term financial assets	**(3,571)**	**(2,328)**	**(4,850)**
Due to banks	49,887	37,170	41,079
Financial payables to holding companies	-	-	-
Short term leasings	0,013	0,020	0,175
Short term financial debt	**49,900**	**37,190**	**41,254**
Due to banks	38,894	43,736	52,103
Mid-long term leasings	-	0,004	0,008
Due to bondholders	-	-	-
Mid-long term financial debt	**38,894**	**43,740**	**52,111**
Net Financial Position	**85,223**	**78,602**	**88,515**

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 2011, 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 2010.

4.3 Executive report on operations

Profit and loss analysis

Profit and Loss – Figure as of 31st March 2011

(in € / 000)

	31/3/2011	%	31/3/2010	%	var. €
Revenues from sales and services	**72,375**	**95,87%**	**68,708**	**98,13%**	**3,667**
Value of Production	**75,494**	**100,00%**	**70,016**	**100,00%**	**5,478**
Gross operating profit	**6,389**	**8,46%**	**5,695**	**8,13%**	**0,694**
Net operating profit	**1,606**	**2,13%**	**0,669**	**0,96%**	**0,937**
Pre-tax profit	**0,182**	**0,24%**	**0,825**	**1,18%**	**(0,643)**
Net profit for the period	**(0,351)**	**-0,47%**	**(0,158)**	**-0,23%**	**(0,193)**

The financial results of the period are the following:

- **Consolidated net sales** amounted to **72.38 million Euros** up by **5.3%** in comparison with the end of March 2010.
- **Gross operating profit** amounted to **6.39 million Euros** (5.7 million as of 31st March 2010)
- **Net operating Profit** was **1.61 million Euros** (0.7 million as of 31st March 2010)
- **Pre-tax Result** was equal to **0.18** million Euros (0.8 million Euros as of 31st March 2010)
- **Consolidated net loss** of **0.35 million Euros** (net loss of 0.2 as of 31st March 2010).

The first quarter 2011 had a good increase higher than 5%; this result is considered extremely positive considering the current difficulties of the ceramic tile industry.

The increase in sales determined an immediate effect on the Gross operating profit that increased of 12% and still more marked was the improvement of the Net Operating Profit that went up of 0.9 million Euros.

Nonetheless the good performances above mentioned, the final result is a net loss, due exclusively to the significant depreciation of the US currency that determined a negative economic effect of 1.6 million dollar in comparison with the first quarter 2010: while last year we realized a gain on foreign currency for 1.1 million Euros, this year we had a loss of 0.5 million Euros.

Revenues

The **Net sales** reported an improvement of **5.3%** going from 68.6 million Euros as of 31st March 2010 up to 72.4 million Euros as of 31st March 2011 (up 3.7 million Euros).

Main reference markets

On all the main markets our Group realized encouraging performances, less marked in European Countries and in a more consistent manner in the other areas.

The Western Countries of the **European markets** are still the ones with less dynamicity for our industry; nonetheless this situation, excluding Portuguese market, penalised by the negative economic and politic environment, we observed positive results in the main nations, such as Germany, France and Austria.
The quote of the European markets on the consolidated sales is around 41%.

The **Italian market,** after 3 negative years, showed in the first quarter 2011 a good increase of 3.5%, driven mainly by the new laminated gres products that confirmed their strategic importance for the Group. We consider the result obtained in the Italian market as really positive considering the important crisis that still is involving our country.
The quote of the Italian market on the consolidated sales amounted to 29%.

The sales of the first quarter on the **US market** confirmed the increasing trend that accompanied all 2010; in fact on this area the growth was equal to 11.8%. In total, the most relevant contribution to this result is attributable to the controlled company Florida Tile, but also the Italian Brands are operating in the US market with brilliant results.
The quote of the **US market** on the consolidated turnover is around 21%.

Also the so called **Overseas areas** (Asia, Oceania and Africa) reached good results with a growth of more than 20%, with an increase of 1.0 million Euro. The commercial reorganisation on these areas, through the creation of the new dedicated structure Panariagroup Trade, started to bring the first developing results.

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 commed.

We highlight a general positive trend for all our Brands, with the only exception of the Portuguese ones that suffered the impact of the domestic crisis, but with a contained loss, thanks to the results in foreign countries.

We remark in particular the performance of the Italian Brands that realized together an increase in sales of more than 8%, inverting the trend of the last years. This result is extremely positive if compared with the performance of the other Italian competitors that, following Confindustria Ceramica data, increased in average of about 3%.

Operating results

The **Gross operating profit** totalled up **6.4 million Euros**, which represents 8.5% of the Value of Production (5.7 million Euros, equal to 8.1% as of 31st March 2010), with an improvement of 0.7 million Euros.

The increase in operating profit is due to the following factors :

- The increase in sales that, associated to the stability of the average prices, generated higher margins
- The increase in volume of production in respect with the first quarter 2010 (+8%) that enabled an higher efficiency in our plants and bring to a reduction of the unitary costs in particular regard with the fixed costs (personnel, leasing, etc.)
- As opposite effect, we observed an increase in energy costs and of some important raw material prices (feldspar, zirconium oxide)

The **Net operating Profit** was of 1.6 million Euros (0.7 million Euros as of 31st March 2010), with a growth of 0.9 million Euros.

We observe a significant reduction of the depreciation’s incidence on sales that passed from 6.3% to 5.4%, due both to the increase in revenues and to the decrease in the total amount of the depreciations.

The Financial costs are heavily conditioned by the depreciaton of the US currency that from the beginning of the year lost 6% of its value, while in the first quarter 2010 we observed a different dynamic with a gain of 7%. This gap in the US currency rate determined a worse result of 1.6 million Euro if compared with 2010. The trend of financial interests cost is positive, with a slight decrease.

The **Pre-tax Result** was positive for 0.2 million Euros (0.8 million Euros as of 31st March 2010)

The tax charge estimated was equal to 0.5 million Euros.

The **Consolidated Net loss** amounted to 0.4 million Euros

Financial and balance sheet highlights

Balance Sheet

(in € / 000)

	31/3/2011	31/12/2010	31/3/2010
Net Working Capital	**146,700**	**139,593**	**144,772**
Fixed assets	**102,642**	**106,198**	**109,782**
Assets / Liabilities due after year	**(16,298)**	**(17,016)**	**(17,786)**
NET CAPITAL EMPLOYED	**233,044**	**228,775**	**236,768**
Net Financial Position	**85,223**	**78,602**	**88,515**
Shareholders' equity	**147,821**	**150,173**	**148,253**
TOTAL SOURCES OF FUNDS	**233,044**	**228,775**	**236,768**

Net working capital

The Net Working Capital trend of the first quarter is of a relevant increase equal to about 7 million Euros from the beginning of the year, due to seasonal dynamics involving receivables and inventory.

The comparison with March 2011 shows a moderate growth (1.3%), entirely due to inventory, particularly on stock of new products, while we observed an improvement on the receivables/sales ratio.

Nonetheless the actual increase in stocks, we confirm the attention of the Group on the rationalisation of the stocks, through a careful policy of management of the range of products.

Investments

The level of Fixed assets decreased from the beginning of the year of about 3.6 million Euros.

The decrease is due to:

- The net investments of the period, amounting to 1.5 million Euros: these investments are related for 0.9 million Euros to investments in the Italian Business Unit, 0.3 million Euros in the Portuguese Business Unit and for about 0.3 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 4.1 million Euros.

In relation to the capital additions, it's important to highlight that in the second part of the year we will implement the second productive line dedicated to laminated gres, that actually can be considered the most innovative for our industry.

The success obtained by this type of product is due to its technical characteristics of greater lightness, strength and versatility, guaranteed by the use of an innovative technology that allows the production of ceramic tiles very large (up to 1m to 3m) with a thickness very thin (3mm).

Net financial position

(thousands euro)	**31/12/2010**	**31/12/2010**	**31/12/2009**
Net financial position (debt) - beginning	**(78,602)**	**(86,781)**	**(86,781)**
Net Result	(0,351)	1,444	(0,158)
D & A	4,091	17,402	4,394
Net Variation Provisions	(0,137)	3,348	0,726
Internal operating Cash flow	**3,603**	**22,194**	**4,962**
Change in net working capital	(7,688)	(4,371)	(6,154)
Dividend distribution	0,000	0,000	0,000
Net Investments	(1,485)	(10,607)	(1,370)
Other movements	(1,051)	0,963	0,828
Net financial position (debt) - final	**(85,223)**	**(78,602)**	**(88,515)**

The Net Financial Position improved from the first quarter 2011 of 3.3 million Euros; the worsening from the beginning of the year is explained by the seasonal trend of the Net Working Capital.

5. OPERATIONAL OUTLOOK FOR THE GROUP

The recovery signs observed in last quarter of 2010 alimented an optimistic view that contributed to the good increase in sales realised in first quarter 2011; now, the important events of recent months, such as the earthquake in Japan, the political crises in some countries of North Africa and the persistent difficulties of the Portuguese country and of other UE countries, slowed down the expectations of a real turnaround of the economy, bringing new uncertainty on future scenarios.

The high volatility of some important factors, such as the energetic cost, the raw materials cost, and the exchange rate trend, makes difficult to plan and operate mid-term choices and it exposes us to risk of reduction in profitability.

In order to go through the difficulties of this economic context, our Group is operating on 3 main directions: the development of sales in areas still low covered but with a great potential (emerging countries), the evolution in product innovation and the cost optimization searching an higher productive efficiency and the containment of the structural costs.

6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events took place after the balance sheet date.