Panariagroup Industrie Ceramiche S.p.A.

INTERIM REPORT ON OPERATIONS AT 31st MARCH 2016

Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia (Modena)
Taxpayer ID and VAT No. 01865640369 www.panariagroup.it

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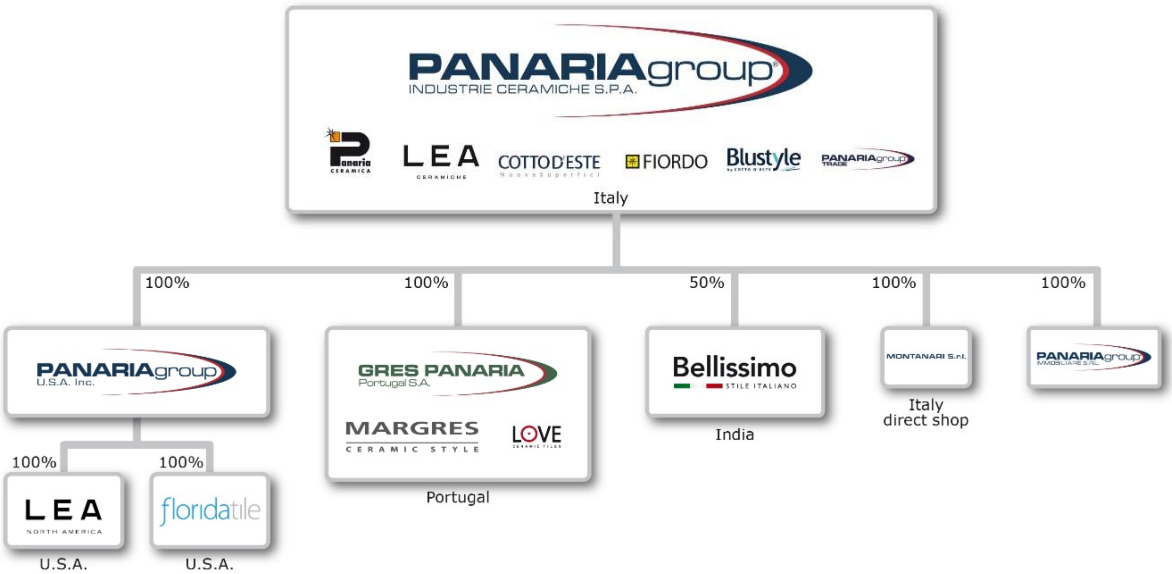
1. STRUCTURE OF THE GROUP

The structure of the Group at 31st March 2016 is as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena (Italy), with share capital of Euro 22,677,645.50.

Panariagroup produces and sells ceramic tiles for floors and walls under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. All of these brands focus on the high-end and deluxe market segment and mainly sell grès porcelain stoneware product lines, both in Italy and abroad.

Gres Panaria Portugal S.A, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

Gres Panaria Portugal produces ceramic tiles for floors and walls under two separate brand names, Margres and Love Tiles, both aimed at the main European markets.

Panariagroup USA Inc. based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

It owns 100% interests in Florida Tile Inc. and Lea North America LLC.

This company markets Panaria branded products on the North American market.

Florida Tile Inc. based in Delaware, USA, share capital of USD 34,000,000, wholly owned by Panariagroup USA Inc., produces and sells ceramic tiles in the USA through its own distribution network located mainly on the East coast.

Lea North America LLC., based in Delaware, USA, share capital of USD 20,000, wholly owned by Panariagroup USA Inc.
This company markets Lea branded products on the North American market.

Montanari Ceramiche S.r.l, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

Panariagroup Immobiliare based in Finale Emilia, Modena (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.
This company's core business is buying, selling and exchanging buildings.

The Group also has an investment in a Joint Venture Company (JVC) headquartered in the Indian state of Gujarat. This company is held 50% by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

2. DIRECTORS AND OFFICIALS

Board of Directors

Full Name	Office
Mussini Emilio	Chairman of the Board and Managing Director
Mussini Giuliano	Deputy Chairman of the Board of Directors
Mussini Giovanna	Deputy Chairman of the Board of Directors
Mussini Paolo	Managing Director
Pini Giuliano	Managing Director
Bonfiglioli Sonia	Independent Director
Onofri Paolo	Independent Director
Palandri Enrico	Independent Director
Tunioli Roberto	Independent Director

Board of Statutory Auditors

Full Name	Office
Marchese Sergio	Chairman of the Board of Statutory Auditors
Ascari Piergiovanni	Standing Auditor
Muserra Francesca	Standing Auditor

Independent Auditors

Reconta Ernst & Young S.p.A.

3. INCOME STATEMENT AND BALANCE SHEET

3.1 Income Statement: Comparison between 31st March 2016 and 31st March 2015

(in thousands of Euro)

	03/31/2016	%	03/31/2015	%	var.	var. %
Revenues from sales and services	**91,516**	**95.60%**	**81,923**	**95.02%**	**9,593**	**11.71%**
Change in inventories of finished products	1,579	1.65%	2,729	3.17%	(1,150)	-42.14%
Other revenues	2,637	2.75%	1,565	1.82%	1,072	68.47%
Value of Production	**95,731**	**100.00%**	**86,217**	**100.00%**	**9,514**	**11.04%**
Raw, ancillary and consumable materials	(27,298)	-28.52%	(24,960)	-28.95%	(2,338)	9.37%
Services, leases and rentals	(34,714)	-36.26%	(33,040)	-38.32%	(1,674)	5.07%
Personnel costs	(23,530)	-24.58%	(21,127)	-24.50%	(2,403)	11.37%
Other operating expenses	(869)	-0.91%	(804)	-0.93%	(65)	8.08%
Cost of production	**(86,411)**	**-90.26%**	**(79,931)**	**-92.71%**	**(6,480)**	**8.11%**
Gross operating profit	**9,320**	**9.74%**	**6,286**	**7.29%**	**3,034**	**48.27%**
D&A expenses	(4,460)	-4.66%	(4,128)	-4.79%	(332)	8.04%
Provisions and other impairments	(437)	-0.46%	(388)	-0.45%	(49)	12.63%
Net operating profit	**4,423**	**4.62%**	**1,770**	**2.05%**	**2,653**	**149.89%**
Financial income and expense	(1,151)	-1.20%	97	0.11%	(1,248)	
Pre-tax profit	**3,272**	**3.42%**	**1,867**	**2.17%**	**1,405**	**75.26%**
Income taxes estimated	(1,369)	-1.43%	(850)	-0.99%	(519)	61.06%
Net profit (loss) for the period	**1,903**	**1.99%**	**1,017**	**1.18%**	**886**	**87.12%**

3.2 Reclassified balance sheet

(in thousands of Euro)

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

	03/31/2016	12/31/2015	03/31/2015
Inventories	138,183	138,208	138,242
Accounts Receivable	85,978	78,031	81,145
Other current assets	10,236	11,075	10,861
CURRENT ASSETS	**234,398**	**227,314**	**230,248**
Account Payables	(76,072)	(76,037)	(63,057)
Other current liabilities	(26,168)	(25,429)	(25,207)
CURRENT LIABILITIES	**(102,240)**	**(101,466)**	**(88,264)**
NET WORKING CAPITAL	**132,158**	**125,848**	**141,984**
Goodwill	8,139	8,139	8,139
Intangible assets	6,468	5,593	3,067
Tangible assets	108,290	109,115	91,870
Equity Investments and other financial assets	189	189	358
FIXED ASSETS	**123,086**	**123,036**	**103,434**
Receivables due after following year	644	802	1,061
Provision for termination benefits	(5,767)	(5,837)	(6,511)
Provision for risk and charge	(4,365)	(4,333)	(4,160)
Deferred tax assets	10,060	10,699	13,779
Other payables due after the year	(7,261)	(7,968)	(2,716)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(6,689)**	**(6,637)**	**1,453**
NET CAPITAL EMPLOYED	**248,555**	**242,247**	**246,871**

Short term financial assets	(10,010)	(7,500)	(2,807)
Short term financial debt	43,221	36,372	50,623
NET SHORT TERM FINACIAL DEBT	**33,211**	**28,872**	**47,816**
Mid-Long term financial debt	57,108	54,119	44,201
NET FINANCIAL POSITION	**90,319**	**82,991**	**92,017**
Group Shareholders' Equity	158,236	159,256	154,854
SHAREHOLDERS' EQUITY	**158,236**	**159,256**	**154,854**
TOTAL SOURCES OF FOUNDS	**248,555**	**242,247**	**246,871**

3.3 Consolidated Net Financial Position

(in thousands of Euro)

	03/31/2016	12/31/2015	03/31/2015
Securities	-	-	-
Cash and cash equivalents	(10,010)	(7,500)	(2,807)
Short-term financial assets	**(10,010)**	**(7,500)**	**(2,807)**
Due to banks	42,974	36,115	50,363
Leasing	247	257	260
Short-term financial indebtedness	**43,221**	**36,372**	**50,623**
Due to banks	56,544	53,467	43,334
Leasing	564	652	867
Due to bondholders	-	-	-
Long-term financial indebtedness	**57,108**	**54,119**	**44,201**
Net financial indebtedness	**90,319**	**82,991**	**92,017**

4. COMMENTS ON THE FINANCIAL STATEMENTS

4.1 Accounting principles adopted

This interim report on operations is prepared pursuant to Article 154-ter of Italian Legislative Decree no. 58/1998 (Consolidated Finance Act) and Consob's Issuers Regulations.

In connection with regulations on the listing of parent companies of companies incorporated or regulated under the laws of countries not belonging to the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- At 31st March 2016, three companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc and Lea North America LLC
- Adequate procedures have been adopted to ensure thorough compliance with the rules (Article 36 of the Market Regulations issued by Consob).

Panariagroup adopted the IFRS issued by the International Accounting Standards Board.
The accounting policies used in preparing this interim report do not differ from those applied since the date of adoption of IFRS; moreover, the accounting figures given in this interim report do not include any estimates other than those normally used to prepare the annual financial statements.

In relation to the Group's US companies, there were no significant differences between local accounting principles (US GAAP) and the accounting standards adopted in the consolidated financial statements (IFRS).

This Interim Report has not been audited.

The amounts reported and commented are in thousands of euro, unless otherwise indicated.

4.2 Scope of consolidation

The scope of consolidation includes:

- **Panariagroup Industrie Ceramiche S.p.A**. Parent Company
- **Gres Panaria Portugal S.A.** wholly owned subsidiary
- **Panariagroup USA Inc.** wholly owned subsidiary
- **Florida Tile Inc.** wholly owned subsidiary
- **Lea North America LLC.** wholly owned subsidiary
- **Montanari Ceramiche S.r.l,** wholly owned subsidiary
- **Panariagroup Immobiliare,** wholly owned subsidiary.

All of the companies included in the scope of consolidation have been consolidated on a line-by-line basis.

The Group also holds a 50% interest in a Joint Venture Company (JVC) in India called Asian Panaria, measured at Equity.

4.3 Report on operations

Income statement – Key figures at 31st March 2016

(in thousands of Euro)

	03/31/2016	%	03/31/2015	%	var. €	var. %
Revenues from sales and services	**91,516**	**95.60%**	**81,923**	**95.02%**	**9,593**	**11.7%**
Value of Production	**95,731**	**100.00%**	**86,217**	**100.00%**	**9,514**	**11.0%**
Gross operating profit	**9,320**	**9.74%**	**6,286**	**7.29%**	**3,034**	**48.3%**
Net operating profit	**4,423**	**4.62%**	**1,770**	**2.05%**	**2,653**	**149.9%**
Net profit for the period	**1,903**	**1.99%**	**1,017**	**1.18%**	**886**	**87.1%**

Briefly, the results for the period are the following:

- **Net revenues from sales** amounted to **Euro 91.5 million**, an increase of **11.7%** on March 2015.
- **Gross operating profit** amounted to **Euro 9.3 million** (Euro 6.3 million at 31st March 2015).
- **Net operating profit** amounted to **Euro 4.4 million** (Euro 1.8 million at 31st March 2015).
- **Consolidated operating profit** amounted to **Euro 1.9 million,** (Euro 1.0 million at 31st March 2015).

The first months of the year witnessed a particularly intense volatility on the energy market, significant fluctuations on the financial markets, affected by uncertainties connected with the European banking system, as well as by macro-economic figures on the Chinese economic growth that were below expectations, just like figures related to the European area.

This uncertain framework was also worsened by the constant threats of terrorist attacks, which also caused serious migration flows from the trouble spots in the Middle East towards European countries, thus further destabilising the political and economic context.

Within this uncertain macro-economic framework, in the first quarter of 2016, the Italian ceramics sector showed a generally positive trend in all main global markets (except for Russia, and the Gulf countries), and our Group obtained higher results with respect to this trend, with significant benefits on profit margins as well.

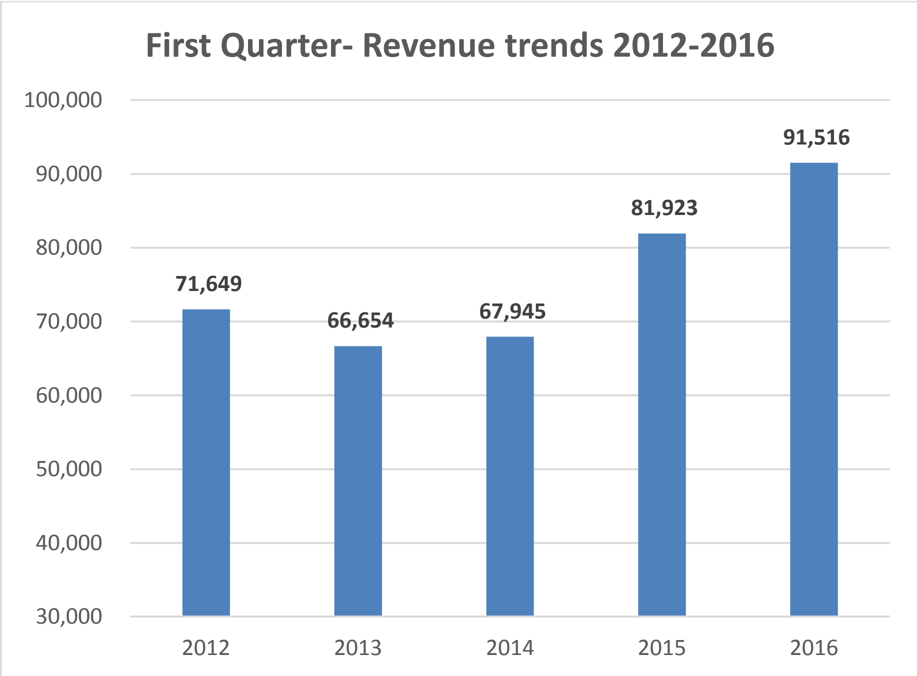
Compared to the first quarter of 2015, important improvements were reported, with increases in Revenues of Euro 9.6 million, in the Gross Operating Profit of Euro 3.0 million, in the Net Operating Margin of Euro 2.7 million and in the Net Result of Euro 0.9 million.

The improvement involved all Business Units, while confirming the validity of the choices that were made by each single Company. The Portuguese and American foreign Divisions further improved the already good margins, and the Italian Division is beginning to show signs of improved profitability.

The Group's equity and financial position is balanced, with its Net Working Capital and the Net Financial Position that decreased compared to the first quarter of 2015, confirming the positive trend reported over the last few years.

Consolidated Revenues

Net revenues from sales reported **11.7%** increase, from Euro 81.9 million at 31st March 2015 to Euro 91.5 million at 31st March 2016 (Euro +9.6 million).



The growth reported in the first quarter of 2016 continues the trend reversal that began in 2014.

Main reference markets

The Group generated significant growth in revenues in all the main areas, in several cases higher than the good performance reported by Italian competitors.

Sales in the **USA** market recorded once more a "double digit" growth, up by 11% in US Dollars, attributable to all distribution channels.
The main indicators on the US economy continue to be positive. During the recent US trade show (Coverings) held in Chicago, we were able to acknowledge a general confidence among operators in our sector.
The US market accounted for **37%** of total revenues.

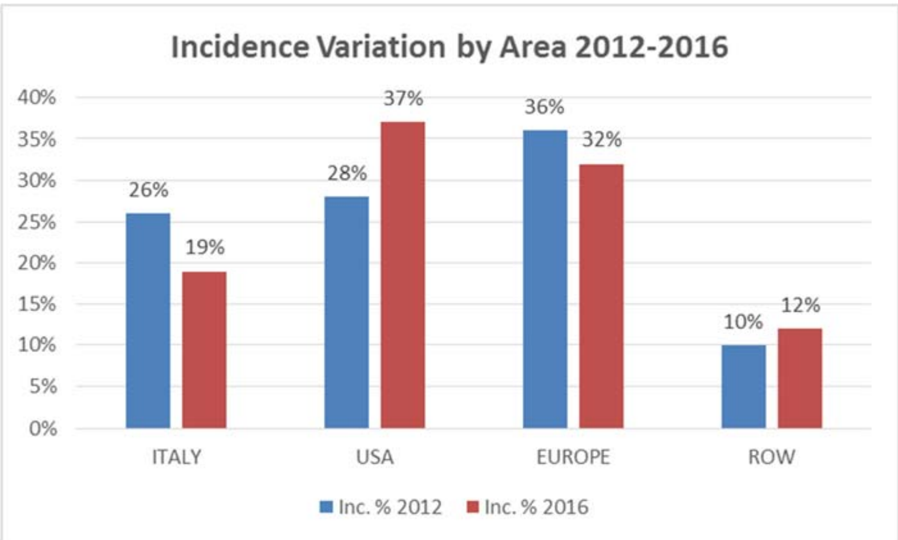
European markets reported a very important growth, equal to 20%, driven by the brilliant performance of Portugal, Germany and the Netherlands. In the last few years, our Portuguese company has always reported a "double digit" growth in the domestic market, clearly higher than the main local competitors. While continuously increasing its market share, this company is now the main operator in the market. In Germany

and the Netherlands, not only good results were obtained with “traditional” customers, but also a significant development is to be noted within new distribution channels.
European markets accounted for **32%** of total revenues.

The **Italian market** confirmed its slight recovery signs that were already reported last year, up by 5% that is substantially consistent with the figures of the sector. In the domestic market, however, the perspectives of a real recovery of the real estate segment are not yet clearly visible.
The Italian market's share of total sales was **19%**.

The **other markets** (Asia, Canada, South America, Oceania and Africa) are still growing and in the first quarter of 2016 reported 9% increase. Homogeneous improvements were reported in the main areas. An intense trade activity is being performed in these markets to better seize their development potentialities.
The other markets account for **12%** of total sales.

The revenues of the Group’s foreign markets was higher than 80%. Non-European markets accounted for nearly 50% of revenues.
The advantages of a territorial diversification strategy related to the business is even clearer. This would allow for a better use of the Group’s resources in the most dynamic markets, while offsetting any possible slowdown in other areas.
Panariagroup is highly international, and this is undoubtedly an important distinctive feature compared to most Italian competitors.



<u>**Performance of the Group’s Divisions**</u>

All the **Italian Divisions** reported a good performance in revenues.
It is worth noting that, due to the commercial reorganization, the Group is acting on traditional channels in the European markets with three distinct structures, represented, respectively by Panaria-Fiordo (recently merged), Cotto d’Este-Blustyle (created from the merger occurred in 2014) and Lea.

This concentration is starting to show benefits, with a consolidation of customers' loyalty and a greater clarity within each single Brand.
In the Italian and European markets, we are still developing the "Private Label" channel, where, also during the last quarter, excellent results were reported thanks to the high quality and technological level of our products.
The multi-brand sales structure of Panariagroup Trade, dedicated to markets in Eastern Europe, Asia and Oceania, continues to grow, with special focus on the channel of large projects, which characterise these areas.

The **Portuguese Division**, which, in its domestic market, is now the most important reality in the sector, confirmed its brilliant results. In the first quarter of 2016, the main development markets, in addition to the local market, were the German and French area.
The various components of the Portuguese Division render it very competitive, thanks to low production costs, a high quality of products manufactured in its own factories and a lean and cost-effective commercial network.

The **US Business Unit** recorded a "double digit" growth thanks to the good performance of Florida Tile and the positive contribution of Panariagroup USA and Lea North America, where strengthening processes of the commercial network were carried out with positive results. In Florida Tile, the activities aimed at further developing its sales in all distribution channels (Own Shops, Independent Distributors, Home Centers).

Operating results

Gross Operating Profit came to **Euro 9.3 million**, representing 9.7% of the Value of Production (Euro 6.3 million at 31st March 2015, or 7.3% of the Value of Production), with a significant growth of Euro 3.0 million.

Operating margins benefited from two main factors, such as the increase in sales and the greater use of production capacity.

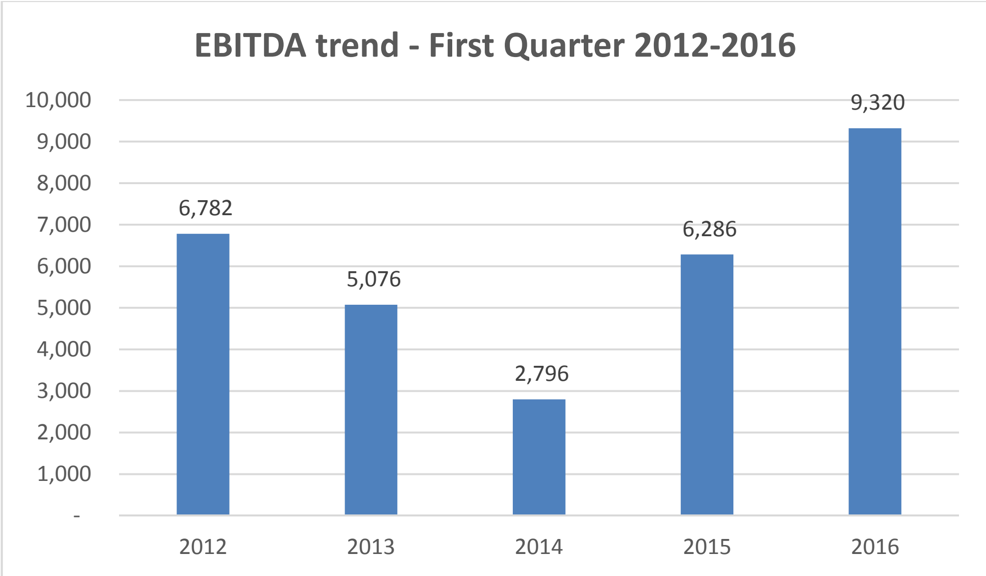
With reference to the first factor, it is worth noting that the growth in revenue was determined by a growth in volumes sold, while the price remained unchanged compared to last year. The increase in volumes produced involved all Group plants, with a consequent reduction in the impact of their fixed costs and semi-variable costs.

Moreover, as regards production costs, it is worth noting that the expected savings on energy tariffs in the European Business Unit resulted in a remarkable reduction in costs of around 10%.

The increase in volumes, obtained also thanks to the presence of new sales channels, allowed for the triggering of a positive absorption mechanism of overhead costs, resulting in significant economic benefits.

All Divisions contributed to the improvement in the Gross Operating margin, where the contribution of the Italian BU (half the increase obtained) was of key importance.

The chart hereunder shows the net reversion in trend reported in the first quarter of the last two years; the first quarter of 2016 is the best over the last five years.

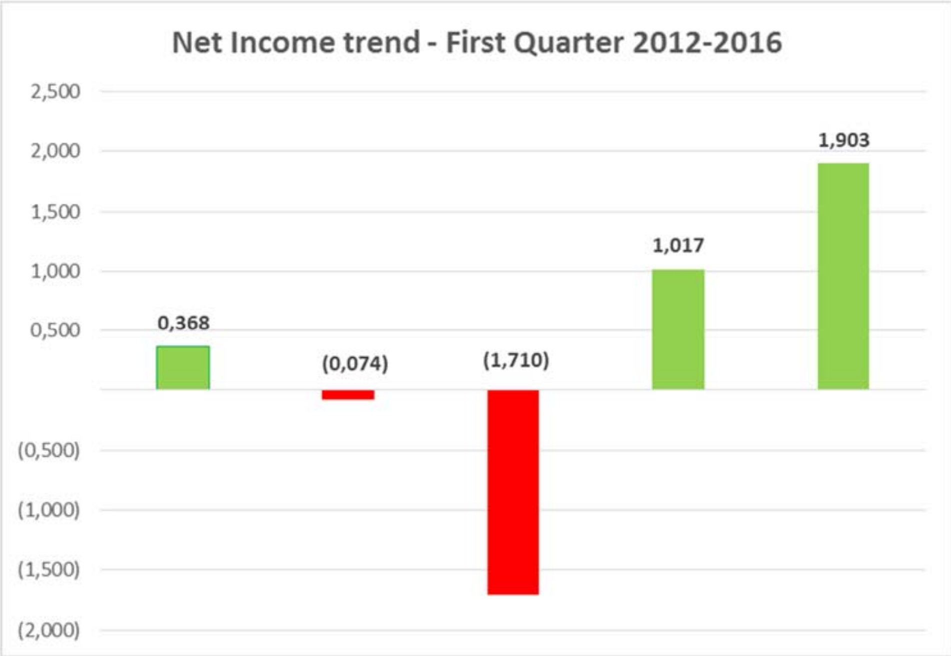


Net operating profit amounted to Euro 4.4 million (Euro 1.8 million at 31st March 2015).

The impact of amortisation/depreciation and provisions on the Value of Production is substantially unchanged compared to the first quarter of 2015.

Financial expenses amounted to Euro 1.1 million, with a limited impact on the Value of Production (1.2%), thanks to the low interest rates and the performance of the Net Financial Position.
The increase in expenses, compared to the first quarter of 2015, is entirely related to the performance of the US Euro/Dollar exchange rate.

The **Consolidated net result** was a profit of Euro 1.9 million (Euro 1.0 million at 31st March 2015).



Review of the balance sheet

Balance sheet summary

(in thousands of Euro)

	03/31/2016	12/31/2015	03/31/2015
Net Working Capital	**132,158**	**125,848**	**141,984**
Fixed Assets	**123,086**	**123,036**	**103,434**
Assets and Liabilities due after the year	**(6,689)**	**(6,637)**	**1,453**
NET CAPITAL EMPLOYED	**248,555**	**242,247**	**246,871**
Net Financial Position	**90,319**	**82,991**	**92,017**
Shareholders' Equity	**158,236**	**159,256**	**154,854**
TOTAL SOURCES OF FOUNDS	**248,555**	**242,247**	**246,871**

Net Working Capital

Net Working Capital decreased compared to 31st March 2015, by Euro 9.8 million.

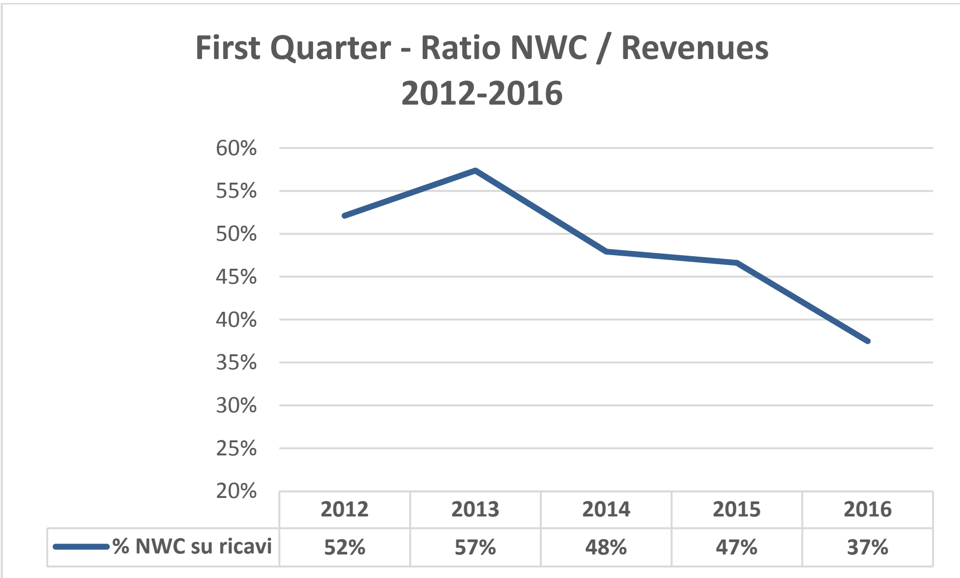
Even in the presence of increased sales of over 10%, the level of inventories remained unchanged, with an improvement in the turnover rate of stocks.

The growth in trade receivables, equal to 6%, is lower than changes in revenue, with a slight improvement in "days sales outstanding". The improvement of this rate is a trend that has been reported in a number of quarters, thanks to the increase in revenue in foreign markets, which feature shorter payment terms compared to the Italian market.

Amounts due to suppliers refer to the natural increase due to increased production activities in all Group plants and increased turnover.

The improved Net Working Capital / Revenues ratio is one of the main performance indicators for the Management.

The chart highlights the significant improvement of the ratio over the last five-year period:



The calculation included the relation between NWC at the reporting date and Revenues over the last 12 months.

Non-current assets

The level of non-current assets is in line compared to the balance at the beginning of the year.

In particular, the movements over the last quarter are determined as follows:

- Capital expenditure for the period, of approximately Euro 6.0 million, of which Euro 3.0 million invested in Italy, Euro 0.7 million in Portugal and Euro 2.3 million in the United States.
- Depreciation and amortisation for the period, amounting to Euro 4.5 million.
- The lower value of non-current assets of the US sub-consolidation expressed in Euro, because of the depreciation of the dollar by Euro 1.5 million compared the end of 2015.

As planned, the second part of the investment program, scheduled for the 2015-2016 two-year period, is being implemented in order to cast sound basis for the future business development of Panariagroup.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Net Financial Position

Financial cash flow
(thousands euro)

	03/31/2016	03/31/2015	03/31/2015
Net financial position (debt) - beginning	**(83.0)**	**(80.2)**	**(80.2)**
Net Result for the period	1.9	5.9	1.0
D & A	4.5	17.4	4.1
Net Variation Provisions	0.6	4.3	1.0
Non monetary changes	0.0	0.0	(0.4)
Internal operating Cash flow	**7.0**	**27.7**	**5.7**
Change in net working capital and other assets and liabilities	(8.7)	7.9	(12.2)
Net Investments	(6.0)	(37.4)	(4.2)
Exchange rate diff. from US$ financial statement conversions	0.4	(1.0)	(1.1)
Net financial position (debt) - final	**(90.3)**	**(83.0)**	**(92.0)**

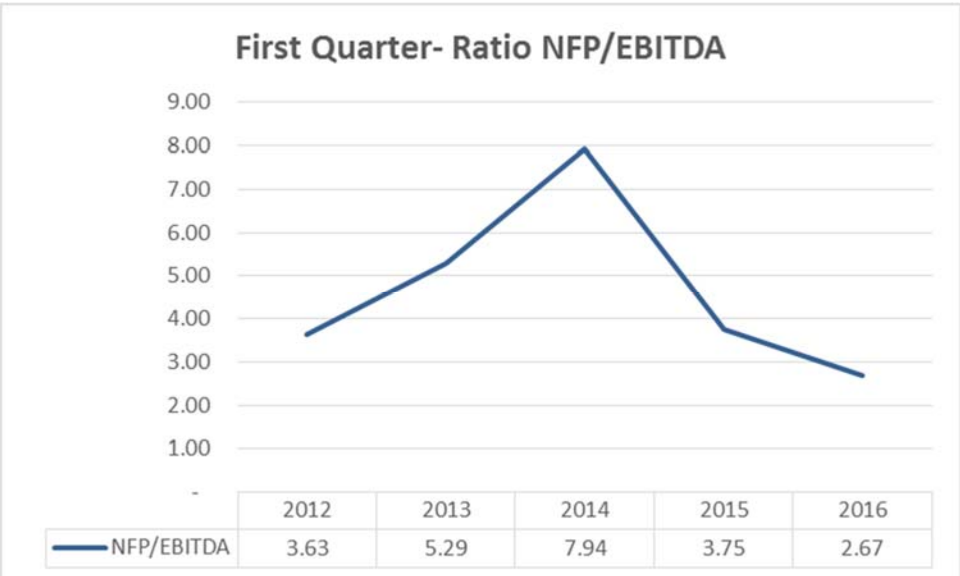
For a better understanding of the exchange rate effect on the Net Financial Position, a method of disclosing cash flows was adopted in which the changes in the single equity components are "free" from the exchange rate effect, which is entirely reported in the item "Changes in the Net Financial Position due to the exchange rate effect". This item reflects the actual impact of exchange differences on the Net Financial Position of the Group.

Net Financial Position worsened by Euro 7.3 million compared to the beginning of the year and improved by Euro 1.7 million compared to 31st March 2015; this result is remarkable taking in consideration the fact that the level of Capex in 2015 was of about Euro 37 million.

The increase in financial indebtedness compared to the start of the year is a typical first quarter trend, particularly as a result of the seasonal trends in trade receivables.

We expect to end the year with a NFP in line with 2015, thus improving the NFP/EBITDA ratio thanks to the expected increase in Gross Operating Profit.

The following chart highlights the important improvements in the ratio obtained in 2015 and 2016:



The calculation included the ratio between NFP at the reporting date and EBITDA over the last 12 months.

5. OUTLOOK.

While keeping reserves on the overall macro-economic context that reported unstable performance over the first months of 2016, we are confident that the current organization of the Group will allow us to fully exploit the competitive advantages obtained over the last few years from rationalization, re-organization and investment activities.

We therefore deem that the process aimed at improving corporate efficiency has not been completed yet. Especially in the Italian Business Unit. In 2016, we will continue reviewing existing organizational models in order to achieve benefits in line with foreign Business Units.

For the remaining part of 2016, we are expecting that the significant savings in energy tariffs be confirmed for the European Business Units. Further benefits on production costs are expected from investments made in the plant in Fiorano (third line and in-sourcing of the polishing of sheets).

We will continue to further strengthen the distinctive factors of our Group, like the strategic position in the high-end market segments, internationalisation, focus on new product and process technologies, as we are convinced that they represent the real assets which will ensure our success not only in the short term but also in the medium/long-term.

The consolidation of financial results and revenues, together with an optimal organisational structure, will allow the Group to aim, in the future, at larger development projects to accelerate the Group growth rate.

6. SUBSEQUENT EVENTS

There are no significant events.