Panariagroup Industrie Ceramiche S.p.A.

INTERIM REPORT ON OPERATIONS AT 31 MARCH 2017

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

TABLE OF CONTENTS

Panariagroup is an Italian multinational company, leader in innovation and beauty.

OUR MISSION

We are specialised in the production and sale of ceramic tiles, with the aim of fostering beauty and innovation.

• Our team generates sustainable value for shareholders, employees and business partners, in respect of the company's environment.

• Our focus is research and innovation to achieve beauty and quality in our products.

• Our objective is to meet the high expectations of well-being and aesthetic requirements of our private or professional customers, both in the construction and architecture sectors.

OUR VALUES

TECHNOLOGICAL LEADERSHIP

We constantly invest in research, technologies and advanced facilities to meet any requirement related to architecture and interior design with innovative solutions, destined to become a reference in these sectors.

QUALITY AND AESTHETIC EXCELLENCE

Always striving to achieve industrial excellence, from the quality of raw materials to process efficiency, we are focusing on products able to combine the aesthetic absolute value with very high technical performance.

LIABILITY

Individuals and the quality of life are always at the centre of our attention, with environmentally friendly and safe products, while acting with the utmost respect of people working with us.

RELIABILITY

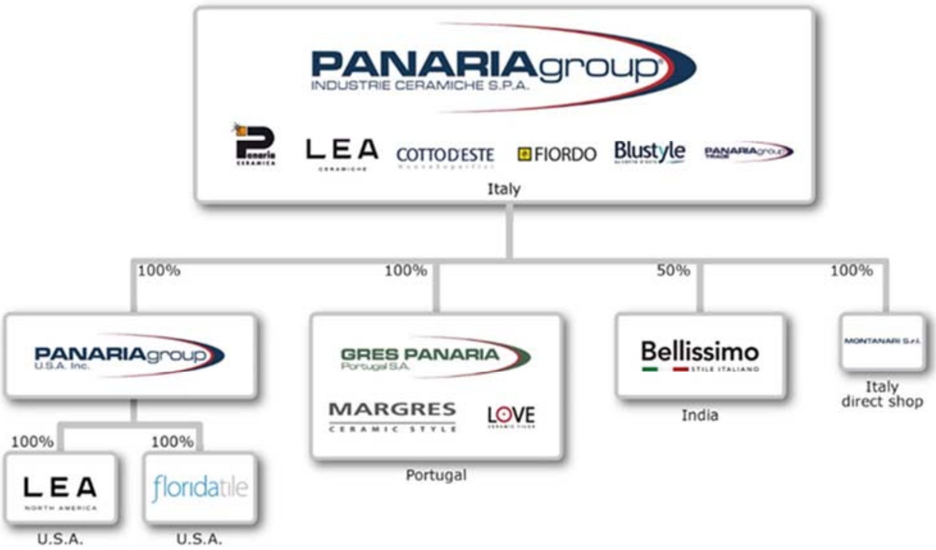
The warranty of a Group that, from its family roots in the Sassuolo area of ceramics to the listing in the Milan Stock Exchange, has grown to become a sound international business, operating at international level, but always with an Italian heart.

Panariagroup is one of the leader manufacturers of ceramic tiles for floors and walls coverings. It employs 1,600 staff, with 9,000 customers, 6 production sites (3 in Italy, 2 in Portugal and 1 in the United States), and it operates through a widespread and solid commercial network in over 100 countries all over the world.

Specialised in porcelain and laminated stoneware products, the Group is at the top positions of the luxury market with nine trademarks: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, which are able to meet the requirements of sophisticated customers, who take special care in the technical and aesthetic qualities of the products.

1. STRUCTURE OF THE GROUP

The structure of the Group at 31 March 2017 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 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 Finale Emilia, Modena (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.

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 Paolo	Deputy Chairman of the Board and Managing Director
Mussini Andrea	Deputy Chairman of the Board of Directors
Pini Giuliano	Managing Director
Mussini Giuliano	Director
Mussini Silvia	Director
Prodi Daniele	Director
Bazoli Francesca	Independent Director
Bonfiglioli Sonia	Independent Director
Ferrari Tiziana	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

EY S.p.A.

3. INCOME STATEMENT AND BALANCE SHEET

3.1 Income Statement: comparison between 31 March 2017 and 31 March 2016

(in thousands of Euro)

	31-Mar-17	%	31-Mar-16	%	var	%
Revenues from sales and services	**99,272**	**92.84%**	**91,516**	**95.60%**	**7,756**	**8.48%**
Change in inventories of finished products	5,307	4.96%	1,579	1.65%	3,728	236.10%
Other revenues	2,344	2.19%	2,637	2.75%	(293)	-11.09%
Value of Production	**106,923**	**100.00%**	**95,731**	**100.00%**	**11,192**	**11.69%**
Raw, ancillary and consumable materials	(30,229)	-28.27%	(27,298)	-28.52%	(2,931)	10.74%
Services, leases and rentals	(38,901)	-36.38%	(34,714)	-36.26%	(4,187)	12.06%
Personnel costs	(24,674)	-23.08%	(23,530)	-24.58%	(1,144)	4.86%
Other operating expenses	(882)	-0.82%	(869)	-0.91%	(13)	1.50%
Cost of production	**(94,686)**	**-88.56%**	**(86,411)**	**-90.26%**	**(8,275)**	**9.58%**
Gross operating profit	**12,237**	**11.44%**	**9,320**	**9.74%**	**2,917**	**31.30%**
D&A expenses	(5,113)	-4.78%	(4,460)	-4.66%	(653)	14.64%
Provisions and other impairments	(370)	-0.35%	(437)	-0.46%	67	-15.33%
Net operating profit	**6,754**	**6.32%**	**4,423**	**4.62%**	**2,331**	**52.70%**
Financial income and expense	(720)	-0.67%	(1,151)	-1.20%	431	-37.45%
Pre-tax profit	**6,034**	**5.64%**	**3,272**	**3.42%**	**2,762**	**84.41%**
Income taxes estimated	(2,009)	-1.88%	(1,369)	-1.43%	(640)	46.75%
Net profit (loss) for the period	**4,025**	**3.76%**	**1,903**	**1.99%**	**2,122**	**111.50%**

3.2 Reclassified balance sheet

(in thousands of Euro)

	31-Mar-17	31-Dec-16	31-Mar-16
Inventories	144,473	140,173	138,183
Accounts Receivable	91,143	79,903	85,978
Other current assets	12,640	13,657	10,236
CURRENT ASSETS	**248,256**	**233,733**	**234,398**
Account Payables	(82,239)	(83,647)	(76,072)
Other current liabilities	(28,661)	(28,097)	(26,168)
CURRENT LIABILITIES	**(110,900)**	**(111,744)**	**(102,240)**
NET WORKING CAPITAL	**137,356**	**121,989**	**132,158**
Goodwill	8,139	8,139	8,139
Intangible assets	14,052	13,967	6,468
Tangible assets	119,002	119,595	108,290
Equity Investments and other financial assets	75	82	189
FIXED ASSETS	**141,268**	**141,783**	**123,086**
Receivables due after following year	775	777	644
Provision for termination benefits	(5,793)	(5,913)	(5,767)
Provision for risk and charge	(4,787)	(4,725)	(4,365)
Deferred tax assets	4,745	5,405	10,060
Other payables due after the year	(2,929)	(3,386)	(7,261)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(7,989)**	**(7,842)**	**(6,689)**
NET CAPITAL EMPLOYED	**270,635**	**255,930**	**248,555**

Short term financial assets	(7,156)	(16,995)	(10,010)
Short term financial debt	41,325	36,505	43,221
NET SHORT TERM FINANCIAL DEBT	**34,169**	**19,510**	**33,211**
Mid-Long term financial debt	61,103	64,202	57,108
NET FINANCIAL POSITION	**95,272**	**83,712**	**90,319**
Group Shareholder's Equity	175,363	172,218	158,236
SHAREHOLDERS' EQUITY	**175,363**	**172,218**	**158,236**
TOTAL SOURCES OF FOUNDS	**270,635**	**255,930**	**248,555**

3.3 Consolidated Net Financial Position

(in thousands of Euro)

	31-Mar-17	31-Dec-16	31-Mar-16
Securities	-	-	-
Cash and cash equivalents	(7,156)	(16,995)	(10,010)
Short-term financial assets	**(7,156)**	**(16,995)**	**(10,010)**
Due to banks	41,063	36,239	42,974
Leasing	262	266	247
Short-term financial indebtedness	**41,325**	**36,505**	**43,221**
Due to banks	60,755	63,785	56,544
Leasing	348	417	564
Due to bondholders	-	-	-
Long-term financial indebtedness	**61,103**	**64,202**	**57,108**
Net financial indebtedness	**95,272**	**83,712**	**90,319**

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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 31 March 2017, three companies controlled by Panariagroup came 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

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.

The scope of consolidation did not change with respect to 31 December 2016.

4.3 **Report on operations**

Income statement – Key figures at 31 March 2017

(in thousands of Euro)

	31-Mar-17	%	31-Mar-16	%	var. €	var. %
Revenues from sales and services	**99,272**	**92.84%**	**91,516**	**95.60%**	**7,756**	**8.48%**
Value of Production	**106,923**	**100.00%**	**95,731**	**100.00%**	**11,192**	**11.69%**
Gross operating profit	**12,237**	**11.44%**	**9,320**	**9.74%**	**2,917**	**31.30%**
Net operating profit	**6,754**	**6.32%**	**4,423**	**4.62%**	**2,331**	**52.70%**
Net profit (loss) for the period	**4,025**	**3.76%**	**1,903**	**1.99%**	**2,122**	**111.50%**

Briefly, the results for the period are the following:

- Consolidated **revenues from sales** amounted to **Euro 99.3 million**, an increase of **8.5%** on the first quarter of 2016.

- **Gross operating profit** came to **Euro 12.2 million** (Euro 9.3 million at 31 March 2016), an increase of **31.3%** on the first quarter of 2016.

- **Net operating profit** amounted to **Euro 6.8 million** (Euro 4.4 million at 31 March 2016), an increase of **52.7%** on the first quarter of 2016.

- **The consolidated net result** was **Euro 4.0 million,** (Euro 1.9 million at 31 March 2016), more than twice what it was in the first quarter of 2016.

In the first quarter of 2017, the Italian ceramic sector showed a good trend overall, with generalised growth in all major markets, consolidating - but with greater decisiveness - an upward trend that was already visible last year.

In addition to taking advantage of the rising trend in ceramic consumption, Panariagroup also benefited from the positive effects of implementing various business development activities. The significant increase in sales (+8.5%) is part of a medium-term growth trend that began in 2014, a year that saw a profound revision of the Group's organisational, production and commercial structure.

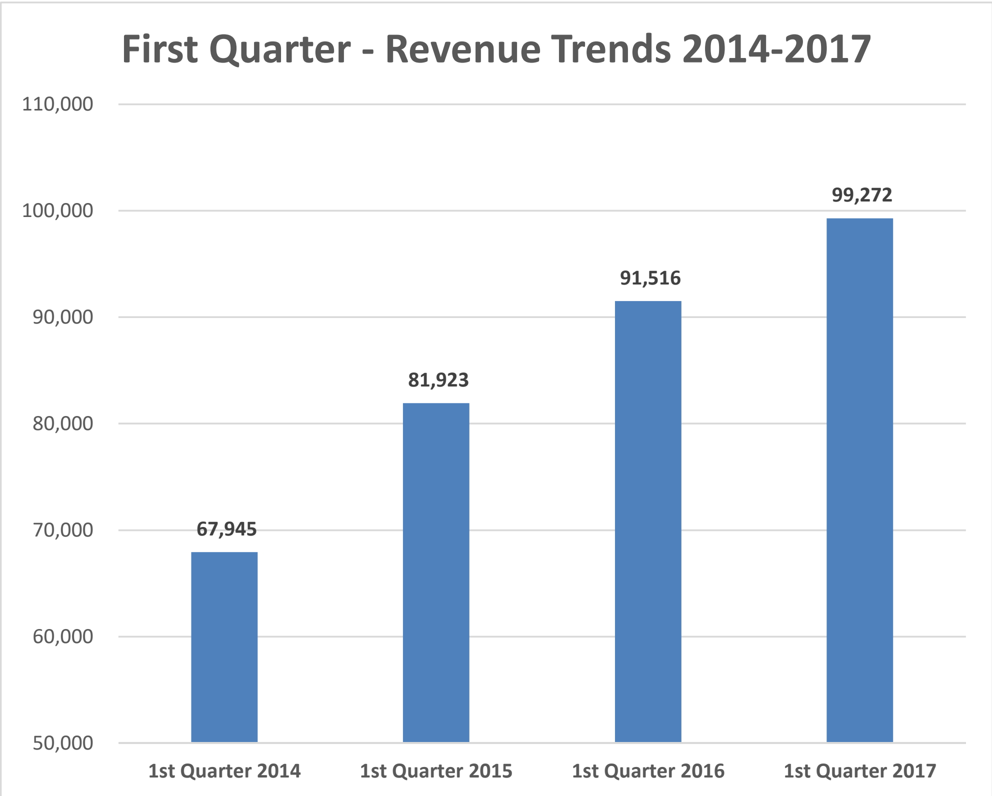
The economic results are definitely positive, making further progress compared with the first quarter of 2016; in this regard, it is worth noting the increases in gross operating profit, with a positive change of Euro 2.9 million, and in the net result, which more than doubled from Euro 1.9 million to Euro 4.0 million.

We are pleased to note that the improvement is mainly due to development of the Italian Business Unit, which is successfully pursuing a path that involves boosting profit margins back to satisfactory levels. The Foreign Business Units, on the other hand, have confirmed their excellent results overall.

The main financial and capital ratios reflect the Group's solidity; the ratios for net working capital and net financial position are still in line with best practice.

Consolidated revenues

Net revenues from sales increased by **8.5%**, from Euro 91.5 million at 31 March 2016 to Euro 99.3 million at 31 March 2017 (+ Euro 7.8 million).



The average rate of growth in revenues over the last 3 years (+13.5%) is very high and demonstrates the effectiveness of the strategies implemented by the Group.

Principal markets

The Group has continued to grow in all of its major markets, with particular progress in European markets.

Performances in the various **European markets** confirm the excellent results of the previous year, posting a 20% increase in sales compared with the first quarter of 2016.

Germany, Portugal and Spain are the areas where the Group has achieved the most significant growth; in Germany and Spain, higher penetration was the reward for the business decisions made in these countries, while in Portugal the action taken by our company, Gres Panaria Portugal, which has significantly expanded its share of the domestic market in recent years, continues to operate effectively.

European markets account for **36%** of total revenues.

Sales on the **US** market show growth of 7%; we believe that all of the conditions exist, both internally and externally, to continue achieving good growth rates in the coming months of 2017 as well.

Our expectations are supported by the latest US market research, which confirms good prospects in the short and medium term.

The US market accounts for **36%** of total revenues.

The **Italian market,** essentially in line with the average trend for the sector, increased slightly (+3%).

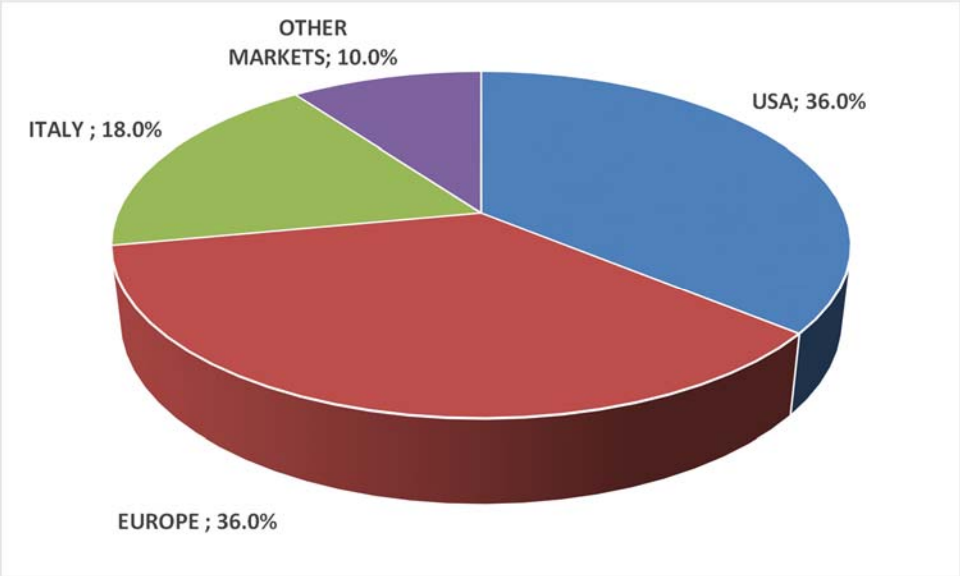
Once again, the Italian market is one of the least dynamic of all the major European markets.

The Italian market's share of total sales is **18%**.

Other markets (Asia, Canada, South America, Oceania and Africa) achieved a limited increase of 2%; this result was penalised by the slowdown in the North African market, mitigated by the positive trends found in Asia and Oceania.

These other markets account for **10%** of total sales.

The distribution of sales is increasingly oriented to foreign markets, accounting for 82% of total revenues. In general, the use of ceramic material throughout the world has been confirming its growth trend for the last 20 years or more, so the territorial diversification that characterises our Group's business organisation allows us to exploit this consolidated trend.



Performance of Group Divisions

The **Italian Business Unit** repeated its good performance in 2016, again achieving sales growth of 10% in the first quarter of 2017, driven by increases in the major European markets.
This performance is mainly thanks to Panariagroup Trade, Cotto d'Este/Blustyle and the Private Label Division (Subcontract).
We are seeing more and more the benefits of the important reorganisation of the corporate structure that we carried out in the Italian Business Unit, which is expected to be completed by the end of this year and which we expect will bring a further contribution to growth.

The **Portuguese Division** also achieved good growth in the first quarter of 2017, both in domestic and foreign markets; the sizeable order backlog will generate a further boost in volumes over the next few months.
The strong growth that distinguishes Gres Panaria Portugal fully justifies the investment plans to expand production capacity at the Aveiro plant.

The **US Business Unit** has reported a growth in turnover as expected.
The underlying premises brought about by the significant investments made in 2016, which led to the installation of a complete new production line and expansion of the Lawrenceburg logistics centre, put our US Division in the best possible condition to exploit the important opportunities in a market that is continuing to show a rising trend.

Operating results

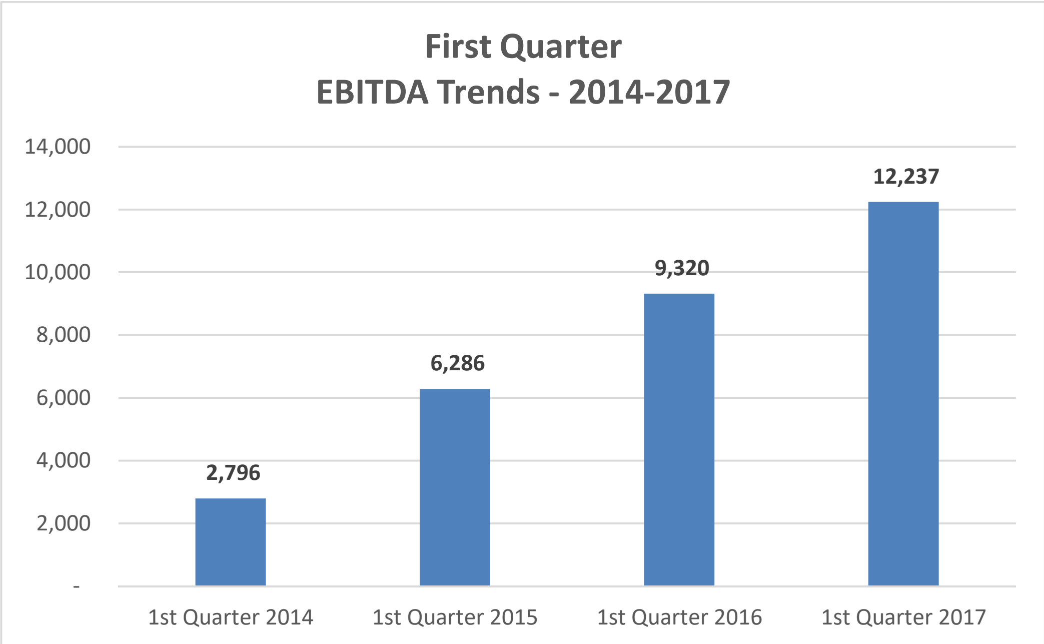
The **gross operating profit** came to **Euro 12.2 million,** equal to 11.4% of the value of production (Euro 9.3 million at 31 March 2016, equal to 9.7% of the value of production), up 31%.

Confirming our expectations, the main factors contributing to the improvement in earnings were the increase in turnover and the reduction in unit production costs.

As regards the increase in revenues, it is important to point out that it was generated by a growth in volumes, confirming once again our maintenance of the high average prices that characterise our positioning at the high end of the market.

The major investments made over the last two years have brought about an improvement in the productivity of our plants, reducing unit production costs as expected, while ensuring alignment with the most advanced technology standards in the industry.
Achieving almost full plant saturation also helped absorb fixed costs, contributing significantly to the decline in unit production costs.
Last but not least, the first quarter of 2017 benefited from lower energy prices compared with 2016, due to the long-term contracts signed in previous years when the energy cost curve was its lowest.

The positive trend in gross operating profit in the first quarter of the year can be seen in the following chart:



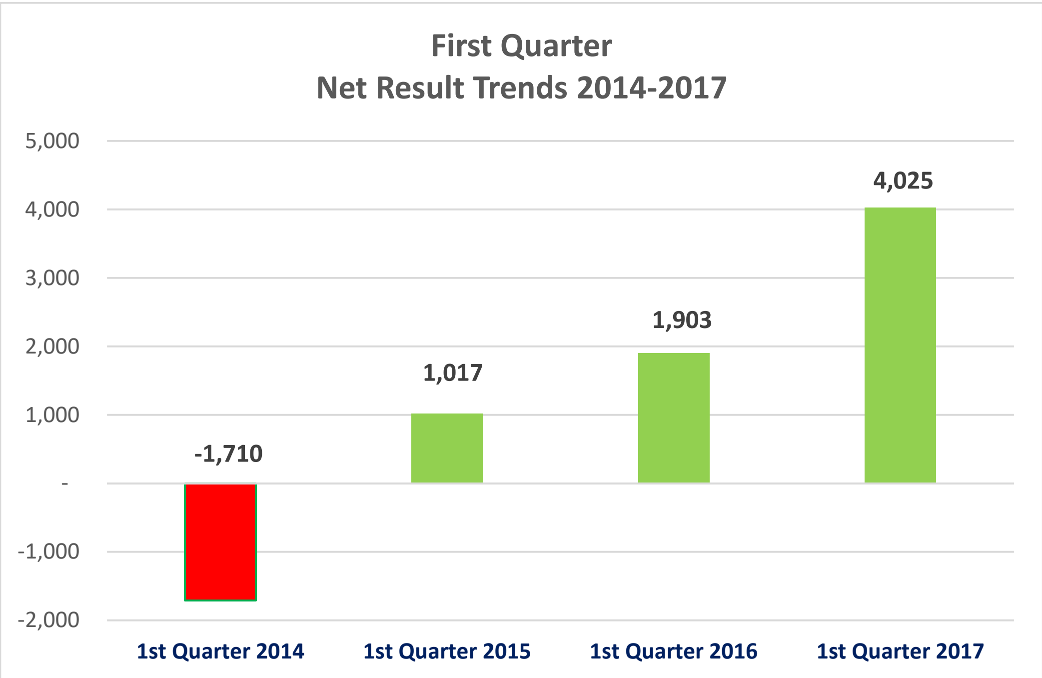
Net operating profit came to Euro 6.8 million (Euro 4.4 million at 31 March 2016), up 53%.

Depreciation and amortisation increased by Euro 0.7 million due to the significant investments made over the last two years, but their impact on the value of production (4.8%) has stayed more or less the same as in the first quarter of 2016.

Financial expenses are very low in proportion to the value of production (0.7%).
Current market conditions, coupled with our Group's solidity and credibility, enable us to access the financial market at the best possible conditions.

The **consolidated net result** is a profit of Euro 4.0 million (Euro 1.9 million at 31 March 2016), more than twice what it was in the first quarter of 2016.

The following chart clearly shows the significant progression made by the Group's results in recent years:



Review of the financial position

Reclassified balance sheet

(in thousands of Euro)

	31-Mar-17	31-Dec-16	31-Mar-16
Net Working Capital	**137,356**	**121,989**	**132,158**
Fixed Assets	**141,268**	**141,783**	**123,086**
Asset and liabilities due after the year	**(7,989)**	**(7,842)**	**(6,689)**
NET CAPTIAL EMPLOYED	**270,635**	**255,930**	**248,555**
Net Financial Position	**95,272**	**83,712**	**90,319**
Shareholders' Equity	**175,363**	**172,218**	**158,236**
TOTAL SOURCES OF FOUNDS	**270,635**	**255,930**	**248,555**

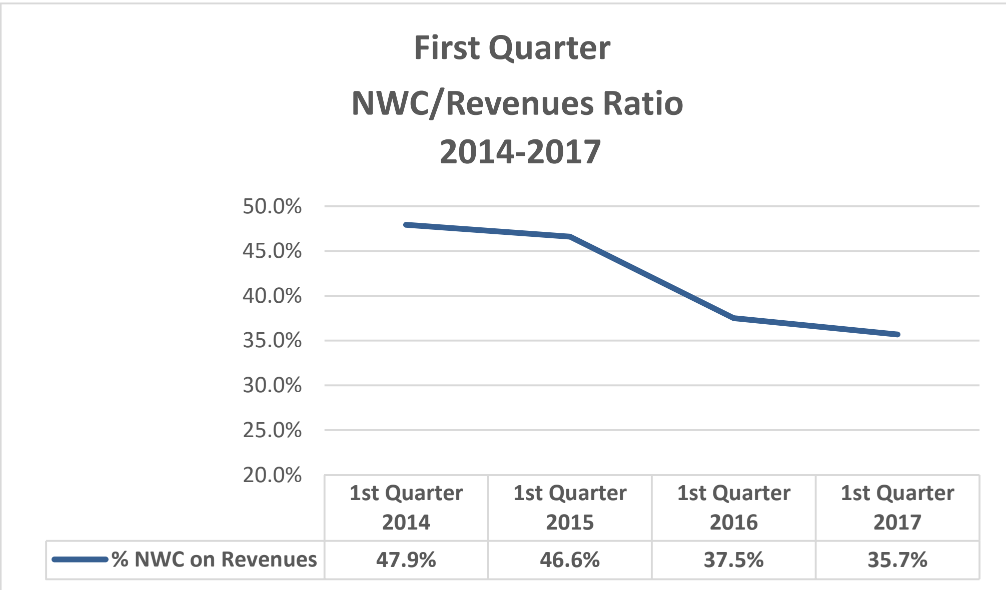
Net working capital

Net working capital rose by 4% compared with the first quarter of 2016, less than revenues, resulting in an improvement in the NWC/Revenues ratio, which went from 37.5% to 35.7%.

Both inventories (+4.5%) and trade receivables (+6%) have increased compared with 31 March 2016, to a lesser extent than revenues grew, which improved inventory turnover and average number of days needed to collect receivables.

Trade payables and other liabilities rose by 8.5% compared with the first quarter of 2016, to a lesser extent than the change in the value of production.

We have always considered the level of net working capital to be a critical factor that has to be handled with great care and the trend between 2014 and 2017 reflects the positive results of this policy:



The calculation includes the ratio between NWC at the reporting date and revenues for the last 12 months.

Non-current assets

The level of non-current assets has fallen by Euro 0.5 million compared with the beginning of the year.
In detail, the changes during the quarter are as follows:

- capital expenditure of Euro 5.3 million, of which Euro 2.2 million was invested in Italy, Euro 1.6 million in Portugal and Euro 1.5 million in the United States.
- depreciation and amortisation for the period of Euro 5.1 million.
- the lower value of fixed assets of the US sub-consolidation expressed in euro because of the slight weakening of the dollar since the end of 2016, for Euro 0.7 million.

As regards our investment plans for the rest of 2017, different hypotheses are being proposed for the Group's three production hubs, depending on the markets and types of product.

As regards the **Italian hub**, we will continue upgrading plant technology and implementing new investments to raise production efficiency at all our factories.

In Italy, a package of tax breaks linked to the "Industry 4.0" programme has been approved; this package entails a significant tax saving and is intended to reward companies that align themselves with the modernisation parameters of production facilities with a view to factory digitisation. This opportunity combines very well with the Group's vocation, which has always been oriented towards constant technological innovation.

With reference to the **Portuguese production hub**, an important investment is planned for the expansion of production capacity, completion of which is expected by the end of this year.
The significant growth achieved by the Portuguese Business Unit in recent years and the prospects of further growth require adequate support from the industrial structure.

The **US production hub** was involved in significant investments in 2016, including a rise in production capacity, with the introduction of a third line, and the expansion of the Lawrenceburg logistics centre; for this reason, we expect more limited investments in 2017.

Net financial position

Financial cash flow
(thousands euro)

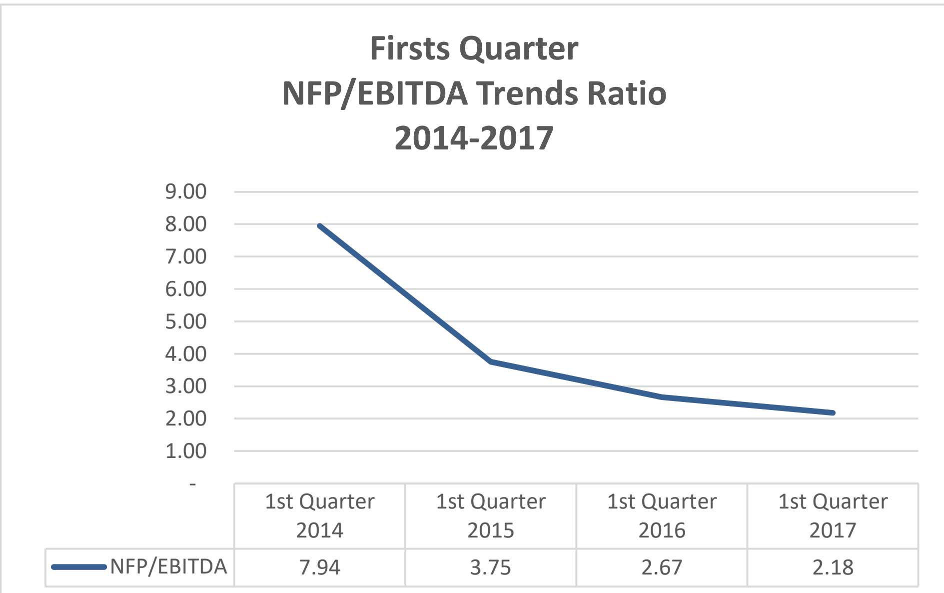
	31-Mar-17	31-Dec-16	31-Mar-16
Net financial position (debt) - beginning	**(83.7)**	**(83.0)**	**(83.0)**
Net Result for the period	4.0	11.2	1.9
D & A	5.1	19.4	4.5
Net Variation Provisions and non monetary changes	0.6	6.7	0.6
Internal operating Cash flow	**9.7**	**37.3**	**7.0**
Change in net working capital and other assets and liabilities	(16.2)	(1.2)	(8.7)
Net Investments	(5.3)	(36.7)	(6.0)
Exchange rate diff. from US$ financial statement conversions	0.1	(0.1)	0.4
Net financial position (debt) - final	**(95.4)**	**(83.7)**	**(90.3)**

For a better understanding of the exchange rate effect on the net financial position, a method of presenting cash flows has been used so that changes in the individual balance sheet items are shown net of the exchange rate effect that is all reflected in the "Change in NFP for exchange rate effect". This item reflects the actual impact of the exchange rate difference on the Group's net financial position.

The net financial position increased by Euro 11.5 million compared with 31 December 2016 and by Euro 5.0 million compared with 31 March 2016.

The increase in financial indebtedness compared with the beginning of the year is typical of the first quarter, due to the absorption of liquidity by net working capital, mainly because of the seasonal trend in trade receivables.

Note, however, that the ratio that we use internally as the main benchmark, i.e. Net Financial Position/EBITDA, continues to improve, coming in at 2.18, which is excellent.



The ratio between NFP at the reporting date and EBITDA for the last 12 months was considered in this calculation.

Shareholders' equity

Shareholders' equity increased from Euro 172.2 million at the end of 2016 to Euro 175.3 million; The profit for the period, Euro 4.0 million, is partially offset by the negative effect on the translation reserve caused by the devaluation of the US dollar against the Euro.

5. OUTLOOK.

2017 started very positively, with first-quarter results in line with our quite ambitious expectations.

We therefore confirm our forecasts of higher revenues compared with 2016 for all Business Units, as well as significant benefits, especially on the Italian Business Unit, for which the advantages of the reorganisation are becoming increasingly visible.

We would like to reiterate our expectations of lower unit production costs as a result of higher planned production volumes, greater plant efficiency thanks to the investments made over the last two years and the reduction in energy prices.

Also on the financial side, we believe we can achieve our goals of improving the main balance sheet ratios and further strengthening our Group in this respect.

We are aware that there are some unknowns in the global political and economic scenario that could have repercussions on our industry as well; but we believe, in any case, that the assumptions on which our results are based are solid and capable of ensuring that we will achieve our goals, also for the rest of the year.

To date, Panariagroup has many resources that allow it to look to the future with confidence, even in the medium term; in addition to key aspects that we have already pointed out in the past, such as strategic positioning, high-end industrial equipment, excellent geographical balance of sales and financial soundness, we would like to emphasise the process of organisational and managerial growth that Panariagroup has undertaken.

The Group's current size, its strong internationalisation and, in general, the increasing complexity of operations led to the need for a more structured organisation than the past, based on an adequate level of professionalism and empowerment in all areas of activity and in all of the Group's Business Units.

This evolution towards an identity as a large multinational corporation, while respecting the tradition and the original values that inspired Panariagroup's founders, is a guarantee of continuity for the Group's success in the future as well.

6. SUBSEQUENT EVENTS

There are no events worthy of mention.