# Panariagroup Industrie Ceramiche S.p.A.

# INTERIM REPORT ON OPERATIONS AT 30 SEPTEMBER 2016


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**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**

<u>TECHNOLOGICAL LEADERSHIP</u>

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.

<u>QUALITY AND AESTHETIC EXCELLENCE</u>

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.

<u>LIABILITY</u>

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.

<u>RELIABILITY</u>

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 30 September 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 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 srl**, 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.

**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 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 Paolo | Managing Director |
| Pini Giuliano | Managing Director |
| Mussini Silvia | 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 |
| Muserra Francesca | Standing Auditor |
| Ascari Piergiovanni | Standing Auditor |

**Independent Auditors**

EY S.p.A.

## 3. INCOME STATEMENT AND BALANCE SHEET

### 3.1 Income Statement: comparison between 30 September 2016 and 30 September 2015

(in thousands of Euro)

| | 30-Sept-2016 | % | 30-Sept-2015 | % | var. | var. % |
|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **286,160** | **98.14%** | **259,447** | **96.55%** | **26,713** | **10.30%** |
| Change in inventories of finished products | (3,152) | -1.08% | 3,513 | 1.31% | (6,665) | -189.72% |
| Other revenues | 8,566 | 2.94% | 5,764 | 2.14% | 2,802 | 48.61% |
| **Value of Production** | **291,574** | **100.00%** | **268,724** | **100.00%** | **22,850** | **8.50%** |
| Raw, ancillary and consumable materials | (83,040) | -28.48% | (77,812) | -28.96% | (5,228) | 6.72% |
| Services, leases and rentals | (108,340) | -37.16% | (101,517) | -37.78% | (6,823) | 6.72% |
| Personnel costs | (68,188) | -23.39% | (62,614) | -23.30% | (5,574) | 8.90% |
| Changes in inventories of raw materials | (2,380) | -0.82% | (2,558) | -0.95% | 178 | -6.96% |
| **Cost of production** | **(261,948)** | **-89.84%** | **(244,501)** | **-90.99%** | **(17,447)** | **7.14%** |
| **Gross operating profit** | **29,626** | **10.16%** | **24,223** | **9.01%** | **5,403** | **22.31%** |
| D&A expenses | (13,998) | -4.80% | (13,047) | -4.86% | (951) | 7.29% |
| Provisions and other impairments | (1,255) | -0.43% | (1,911) | -0.71% | 656 | -34.33% |
| **Net operating profit** | **14,373** | **4.93%** | **9,265** | **3.45%** | **5,108** | **55.13%** |
| Financial income and expense | (2,740) | -0.94% | (1,906) | -0.71% | (834) | 43.76% |
| **Pre-tax profit** | **11,633** | **3.99%** | **7,359** | **2.74%** | **4,274** | **58.08%** |
| Income taxes estimated | (4,544) | -1.56% | (2,939) | -1.09% | (1,605) | 54.61% |
| **Net profit (loss) for the period** | **7,089** | **2.43%** | **4,420** | **1.64%** | **2,669** | **60.38%** |

## 3.2 Income Statement: comparison between Third Quarter 2016 and Third Quarter 2015

(in thousands of Euro)

| | Q3 2016 | % | Q3 2015 | % | var. | var. % |
|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **92,365** | **100.39%** | **84,459** | **98.96%** | **7,906** | **9.36%** |
| Change in inventories of finished products | (3,197) | -3.47% | (1,129) | -1.32% | (2,068) | 183.17% |
| Other revenues | 2,842 | 3.09% | 2,020 | 2.37% | 822 | 40.69% |
| **Value of Production** | **92,010** | **100.00%** | **85,350** | **100.00%** | **6,660** | **7.80%** |
| Raw, ancillary and consumable materials | (26,681) | -29.00% | (24,188) | -28.34% | (2,493) | 10.31% |
| Services, leases and rentals | (35,459) | -38.54% | (32,497) | -38.07% | (2,962) | 9.11% |
| Personnel costs | (21,312) | -23.16% | (20,072) | -23.52% | (1,240) | 6.18% |
| Changes in inventories of raw materials | (316) | -0.34% | (773) | -0.91% | 457 | -59.12% |
| **Cost of production** | **(83,768)** | **-91.04%** | **(77,530)** | **-90.84%** | **(6,238)** | **8.05%** |
| **Gross operating profit** | **8,242** | **8.96%** | **7,820** | **9.16%** | **422** | **5.40%** |
| D&A expenses | (4,863) | -5.29% | (4,611) | -5.40% | (252) | 5.47% |
| Provisions and other impairments | 9 | 0.01% | (620) | -0.73% | 629 | -101.45% |
| **Net operating profit** | **3,388** | **3.68%** | **2,589** | **3.03%** | **799** | **30.86%** |
| Financial income and expense | (722) | -0.78% | (679) | -0.80% | (43) | 6.33% |
| **Pre-tax profit** | **2,666** | **2.90%** | **1,910** | **2.24%** | **756** | **39.58%** |
| Income taxes estimated | (995) | -1.08% | (755) | -0.88% | (240) | 31.79% |
| **Net profit (loss) for the period** | **1,671** | **1.82%** | **1,155** | **1.35%** | **516** | **44.68%** |

## 3.3 Income statement at 30/09/2016 broken down by quarters

(in thousands of Euro)

| | 30-Sept-2016 | % | Q1 2016 | % | Q2 2016 | % | Q3 2016 | % |
|---|---|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **286,160** | **98.14%** | **91,516** | **95.60%** | **102,279** | **98.50%** | **92,365** | **100.39%** |
| Change in inventories of finished products | (3,152) | -1.08% | 1,579 | 1.65% | (1,534) | -1.48% | (3,197) | -3.47% |
| Other revenues | 8,566 | 2.94% | 2,637 | 2.75% | 3,087 | 2.97% | 2,842 | 3.09% |
| **Value of Production** | **291,574** | **100.00%** | **95,731** | **100.00%** | **103,833** | **100.00%** | **92,010** | **100.00%** |
| Raw, ancillary and consumable materials | (83,040) | -28.48% | (27,298) | -28.52% | (29,061) | -27.99% | (26,681) | -29.00% |
| Services, leases and rentals | (108,340) | -37.16% | (34,714) | -36.26% | (38,167) | -36.76% | (35,459) | -38.54% |
| Personnel costs | (68,188) | -23.39% | (23,530) | -24.58% | (23,346) | -22.48% | (21,312) | -23.16% |
| Changes in inventories of raw materials | (2,380) | -0.82% | (869) | -0.91% | (1,195) | -1.15% | (316) | -0.34% |
| **Cost of production** | **(261,948)** | **-89.84%** | **(86,411)** | **-90.26%** | **(91,769)** | **-88.38%** | **(83,768)** | **-91.04%** |
| **Gross operating profit** | **29,626** | **10.16%** | **9,320** | **9.74%** | **12,064** | **11.62%** | **8,242** | **8.96%** |
| D&A expenses | (13,998) | -4.80% | (4,460) | -4.66% | (4,675) | -4.50% | (4,863) | -5.29% |
| Provisions and other impairments | (1,255) | -0.43% | (437) | -0.46% | (827) | -0.80% | 9 | 0.01% |
| **Net operating profit** | **14,373** | **4.93%** | **4,423** | **4.62%** | **6,562** | **6.32%** | **3,388** | **3.68%** |
| Financial income and expense | (2,740) | -0.94% | (1,151) | -1.20% | (867) | -0.83% | (722) | -0.78% |
| **Pre-tax profit** | **11,633** | **3.99%** | **3,272** | **3.42%** | **5,695** | **5.48%** | **2,666** | **2.90%** |
| Income taxes estimated | (4,544) | -1.56% | (1,369) | -1.43% | (2,180) | -2.10% | (995) | -1.08% |
| **Net profit (loss) for the period** | **7,089** | **2.43%** | **1,903** | **1.99%** | **3,515** | **3.39%** | **1,671** | **1.82%** |

## 3.4 Reclassified balance sheet

(in thousands of Euro)

### CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

| | 30-Sept-2016 | 30-June-2016 | 31-Dec-2015 | 30-Sept-2015 |
|---|---|---|---|---|
| Inventories | 134,290 | 137,507 | 138,208 | 136,224 |
| Accounts Receivable | 85,192 | 95,228 | 78,031 | 83,275 |
| Other current assets | 11,585 | 10,720 | 11,075 | 12,049 |
| **CURRENT ASSETS** | **231,067** | **243,455** | **227,314** | **231,548** |
| Account Payables | (76,972) | (82,839) | (76,037) | (71,342) |
| Other current liabilities | (28,772) | (28,869) | (25,429) | (27,703) |
| **CURRENT LIABILITIES** | **(105,744)** | **(111,708)** | **(101,466)** | **(99,045)** |
| **NET WORKING CAPITAL** | **125,323** | **131,747** | **125,848** | **132,503** |
| Goodwill | 8,139 | 8,139 | 8,139 | 8,139 |
| Intangible assets | 10,019 | 8,071 | 5,593 | 4,013 |
| Tangible assets | 115,547 | 112,975 | 109,115 | 99,594 |
| Equity Investments and other financial assets | 6 | 6 | 189 | 187 |
| **FIXED ASSETS** | **133,711** | **129,191** | **123,036** | **111,933** |
| Receivables due after following year | 715 | 599 | 802 | 867 |
| Provision for termination benefits | (5,762) | (5,740) | (5,837) | (6,530) |
| Provision for risk and charge | (4,533) | (4,459) | (4,333) | (4,425) |
| Deferred tax assets | 6,966 | 7,923 | 10,699 | 10,516 |
| Other payables due after the year | (6,369) | (6,278) | (7,968) | (2,964) |
| **ASSET AND LIABILITIES DUE AFTER THE YEAR** | **(8,983)** | **(7,955)** | **(6,637)** | **(2,536)** |
| **NET CAPITAL EMPLOYED** | **250,051** | **252,983** | **242,247** | **241,900** |

| | | | | |
|---|---|---|---|---|
| Short term financial assets | (14,053) | (13,753) | (7,500) | (5,908) |
| Short term financial debt | 37,073 | 53,666 | 36,372 | 52,562 |
| **NET SHORT TERM FINANCIAL DEBT** | **23,020** | **39,913** | **28,872** | **46,654** |
| Mid-Long term financial debt | 62,327 | 49,703 | 54,119 | 39,916 |
| **NET FINANCIAL POSITION** | **85,347** | **89,616** | **82,991** | **86,570** |
| Group Shareholder's Equity | 164,704 | 163,367 | 159,256 | 155,330 |
| **SHAREHOLDERS' EQUITY** | **164,704** | **163,367** | **159,256** | **155,330** |
| **TOTAL SOURCES OF FOUNDS** | **250,051** | **252,983** | **242,247** | **241,900** |

## 3.5 Consolidated Net Financial Position

(in thousands of Euro)

| | 30-Sept-2016 | 30-June-2016 | 31-Dec-2015 | 30-Sept-2015 |
|---|---|---|---|---|
| Securities | - | - | - | - |
| Cash and cash equivalents | (14,053) | (13,753) | (7,500) | (5,908) |
| **Short-term financial assets** | **(14,053)** | **(13,753)** | **(7,500)** | **(5,908)** |
| Due to banks | 36,821 | 53,413 | 36,115 | 52,312 |
| Leasing | 252 | 253 | 257 | 250 |
| **Short-term financial indebtedness** | **37,073** | **53,666** | **36,372** | **52,562** |
| Due to banks | 61,867 | 49,177 | 53,467 | 39,234 |
| Leasing | 460 | 526 | 652 | 682 |
| Due to bondholders | - | - | - | - |
| **Long-term financial indebtedness** | **62,327** | **49,703** | **54,119** | **39,916** |
| **Net financial indebtedness** | **85,347** | **89,616** | **82,991** | **86,570** |

## 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 30 September 2016, 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
- **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 30 September 2016***

*(in thousands of Euro)*

| | 30-Sept-2016 | % | 30-Sept-2015 | % | var. € | % |
|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **286,160** | **98.14%** | **259,447** | **96.55%** | **26,713** | **10.30%** |
| **Value of Production** | **291,574** | **100.00%** | **268,724** | **100.00%** | **22,850** | **8.50%** |
| **Gross operating profit** | **29,626** | **10.16%** | **24,223** | **9.01%** | **5,403** | **22.31%** |
| **Net operating profit** | **14,373** | **4.93%** | **9,265** | **3.45%** | **5,108** | **55.13%** |
| **Pre-tax profit** | **11,633** | **3.99%** | **7,359** | **2.74%** | **4,274** | **58.08%** |
| **Net profit for the period** | **7,089** | **2.43%** | **4,420** | **1.64%** | **2,669** | **60.38%** |

Briefly, the results for the period are the following:

- Consolidated **revenues from sales** amounted to **Euro 286.2 million**, an increase of **10.3%** on September 2015.
- **Gross operating profit** amounted to **Euro 29.6 million** (Euro 24.2 million as of 30 September 2015), up by **22.3%**.
- **Net operating profit** amounted to **Euro 14.4 million** (Euro 9.3 million at 30 September 2015), up by **55.1%**.
- The **consolidated result** is a profit of **Euro 7.1 million** (Euro 4.4 million at 30 September 2015), up by **60.4%**.

The third quarter also confirmed the positive trend of the first half of 2016.

Revenues continued to grow at similar rate than the one reported in the first two quarters, thus confirming a 10% growth. This result, combined with the increase in production volumes, generated important benefits on operating profit.

Gross Operating Profit increased by Euro 5.4 million, Net Operating Profit increased by Euro 5.1 million and the Net Result increased by Euro 2.7 million.

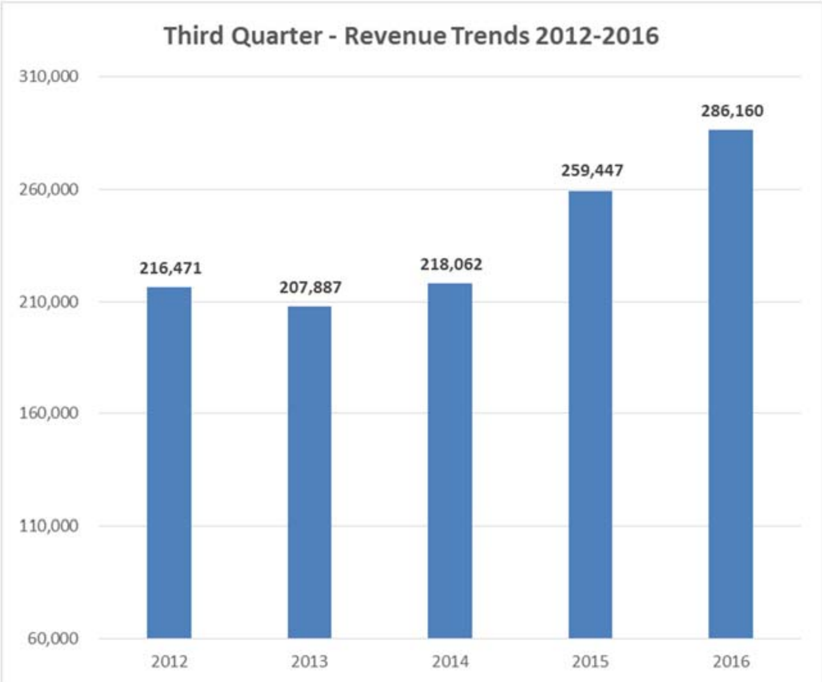
In particular, we wish to underline the improvement in results related to the European Business Units, with the important growth of the Italian BU and the confirmation of the outstanding results of the Portuguese BU.

For comparison purposes, it is worth noting that the relevant costs incurred for the Cersaie exhibition have already been recognised in the month of September 2016, while last year, when this exhibition was held at a later date, the corresponding expenses were recognised in the last quarter of the year.

Albeit in an expansion phase, the company maintained the level of Net Working Capital under strict control, especially as regards stocks. This policy allowed for a further strengthening of the most significant capital ratios, such as the ratio between the Net Financial Position and the Gross Operating Profit over the last 12 months, which was 2.36 (2.83 at 30 September 2015) and the impact of Net Working Capital ratios on Revenues remarkably decreased over the last 12 months, from 39.9% to 33.9%.

**Consolidated Revenues**

**Revenues from sales** remarkably increased, rising from Euro 259.4 million at 30 September 2015 to Euro 286.2 million at 30 September 2016 (Euro +25.8 million).
The growth trend over the last five years highlights the remarkable progression that has occurred over the last three years.




__Main reference markets__

We have obtained excellent sales results, in all the most important areas for the Group, especially on the European markets.

The **European markets**, on the whole, recorded a relevant growth of +23%.
Both Business Units (Italian and Portuguese) reported a double digit growth in all the main markets. To this purpose, the results obtained in the "German speaking" markets are worth noting, as well as the results reported in the French, British and Portuguese markets, without forgetting the positive contribution of Eastern areas. With reference to Portugal, it is worth noting that the market leadership of Gres Panaria Portugal strengthened, while further increasing its market share and confirming its role of most important player on the domestic market. European markets accounted for **33%** of total revenues.

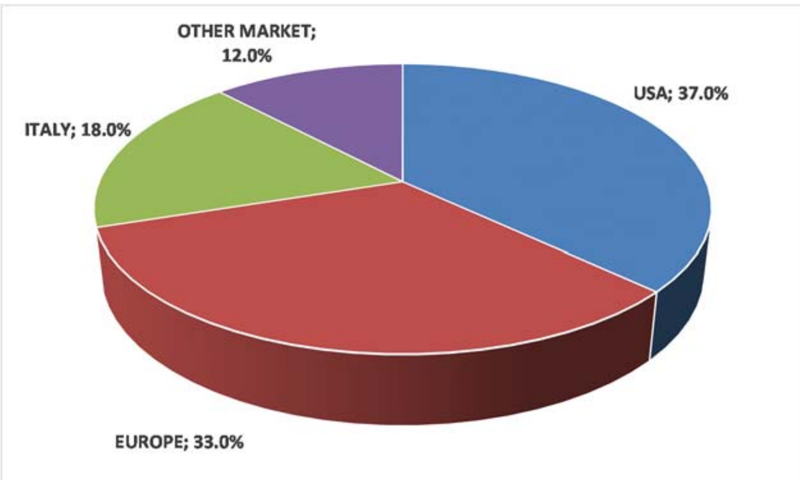
Thanks to the contribution of all distribution channels, sales on the **US market** maintained their positive trend (+7% in dollars over last year).
The last projections on the American market highlight a positive vitality in the building sector, with good prospects over the medium term.
The US market accounted for **37**% of total revenues.

The **Italian market** shows no hints to material improvements in the real estate segment.
However, our Group reported slightly growing revenues compared to last year (+2%), while maintaining market shares.
The Italian market's share of total sales was **18**%.

The **other markets (Asia, Canada, South America, Oceania and Africa)** reported 9% growth, with respect to 30 September 2015, with an excellent improvement over the last quarter (+17%). The areas where we had the best improvements were Asia and Oceania.
In the Asian markets, the channel of large projects is the most dynamic. We believe that our products are particularly suited, for their technical and aesthetic features, to meet the stringent requirements of this segment; for this reason, we confirm the expected important future developments.
The "other markets" accounted for **12%** of total revenues.

The revenues of the Group's **foreign markets** therefore accounted for **82%** of total revenues. **Non-European markets** accounted for **49%** of revenues.

We cannot but stating the importance of internationalization strategies adopted to date, which place us on the world markets as one of the most active operators, able to promptly and effectively seize the business opportunities.



## Performance of the Group's Divisions

All the Group's Business Units made a positive contribution to the growth in revenues.

The **Italian Business Unit**, with 11% increase in sales, is the division which reported the most relevant growth in absolute value.

The streamlining of sales structures dedicated to branded products, which ended with the merger of Divisions, from five to three in number (Panaria/Fiordo, Lea, Cotto d'Este/Blustyle), is generating positive effects, in terms of both efficiency and trade, while respecting the different offers of each single Brand.

The "Private Label" channel continues its development path by opening new important trade partnerships, both in the domestic market and the main European markets, while trying to best exploit the quality and technological level of our products, which is a distinctive factor compared to the majority of competitors in our sector.

The Panariagroup Trade Division, characterised by a multi-brand range and dedicated to the markets of Western Europe, Asia and Oceania, positively affected the growth in turnover, especially in the last quarter.

The **Portuguese Business Unit** reported an excellent growth of over 20%.

Although the Group is operating in a domestic market which is not particularly dynamic, the growth reported in Portugal was significant thanks to the acquisition of important market shares. A significant increase in sales was reported on the main European markets as well, thanks to investments and the reorganization of the trade structure carried out in the recent past.

The main factors of success of this Business Unit are competitiveness of production costs and the acknowledged quality of ceramics of our Portuguese Brands.

With 7% growth rate, the **US Business Unit** continues its consolidated development trend, which has remained unchanged for years now, fostered by favourable market trends and a comprehensive and varied distribution organization operating on all the main channels.

We are being implementing new initiatives aimed at further strengthening the distribution networks with the purpose to acquiring new market shares; among the actions taken during the 2016, we underline the concession to the commercial organization of Florida Tile, of the Brand "Cotto d'Este" distribution.

## Operating results

Gross operating profit came to Euro 29.6 million, representing 10.2% of the Value of Production (Euro 24.2 million at 30 September 2016, or 9.0% of the Value of Production), with a growth of Euro 5.4 million.

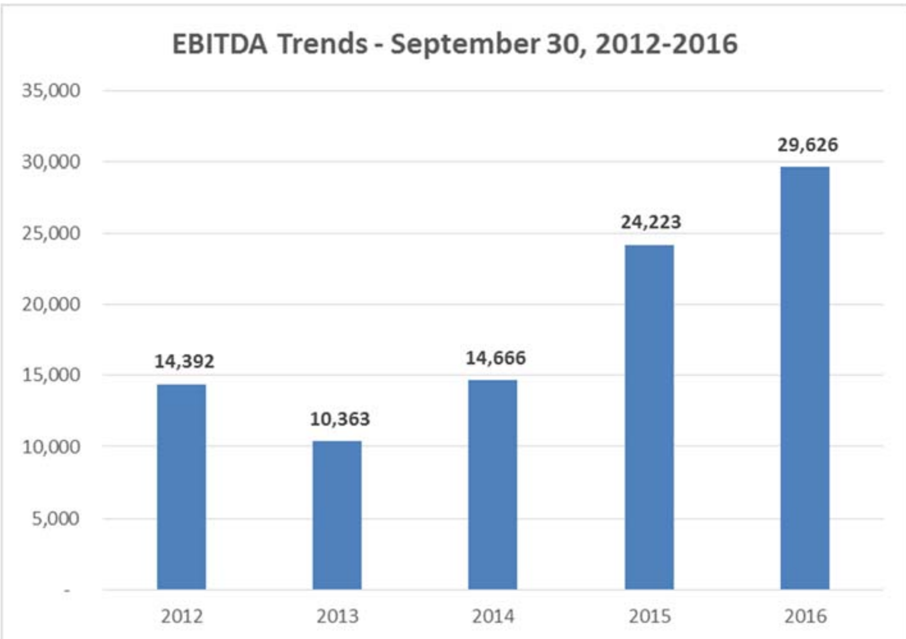
Margins benefited above all from the significant increase in sales, to which the greater involvement in the production capacity is combined.

On the one side, the growth in turnover did not affect the level of sales prices, while, on the other side, the greater productivity allowed for significant savings in product unit costs, further increased by lower energy tariffs reported in the European Business Units.

The launch of the new laminated stoneware production line in Italy, occurred in March, and of traditional stoneware products in USA in October, involved start-up costs that have been entirely paid during the year.
The expected benefits, in terms of production efficiency and product unit costs, will be seen only over the next few months.

Compared to the year 2015, the improvement is still more appreciable taking account of the fact that the important costs related to the Cersaie exhibition have already been recognised in September 2016, while last year these expenses had been recognised in the last quarter of the year, as the event took place at a later date.

The chart below shows the excellent development over the last three years, with the 2016 result, which is clearly the best of the last five years.



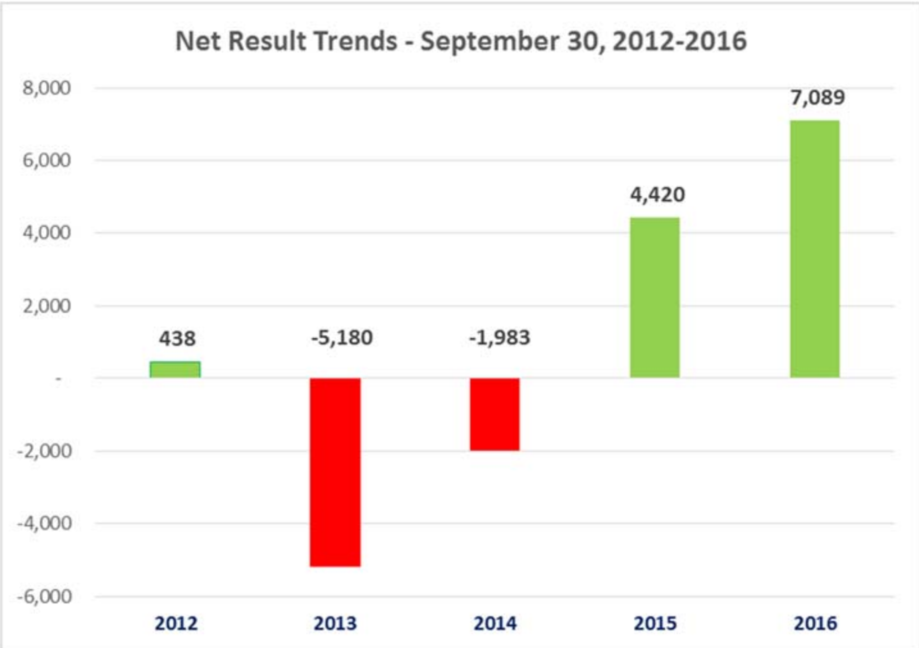
**Net operating profit** amounted to Euro 14.4 million (Euro 9.3 million at 30 September 2015).

Amortisation/depreciation rose in absolute terms over September 2015, while their incidence on revenues is fully consistent.

Financial expense amounted to Euro 2.7 million, with a low impact over the Value of Production (0.9%). This result stems from the careful management of treasury, which allowed us to enjoy high creditworthiness and trust by the entire banking system, with low interest rates. The increase, compared to the first nine months of 2015, is entirely attributable to the Euro/Dollar exchange rate trend.

The **Consolidated Net Result** is a profit of Euro 7.1 million (Euro 4.4 million at 30 September 2015), an improvement of Euro 2.7 million.

The trend of the last five years highlights the clear reversion already started since 2014.



## Review of the balance sheet

*Balance sheet summary*

*(in thousands of Euro)*

| | 30-Sept-2016 | 30-June-2016 | 31-Dec-2015 | 30-Sept-2015 |
|---|---|---|---|---|
| Net Working Capital | 125,323 | 131,747 | 125,848 | 132,503 |
| Fixed Assets | 133,711 | 129,191 | 123,036 | 111,933 |
| Assets and Liabilities due after the year | (8,983) | (7,955) | (6,637) | (2,536) |
| NET CAPITAL EMPLOYED | 250,051 | 252,983 | 242,247 | 241,900 |
| Net Financial Position | 85,347 | 89,616 | 82,991 | 86,570 |
| Shareholders' Equity | 164,704 | 163,367 | 159,256 | 155,330 |
| TOTAL SOURCES OF FOUNDS | 250,051 | 252,983 | 242,247 | 241,900 |

**Net Working Capital**

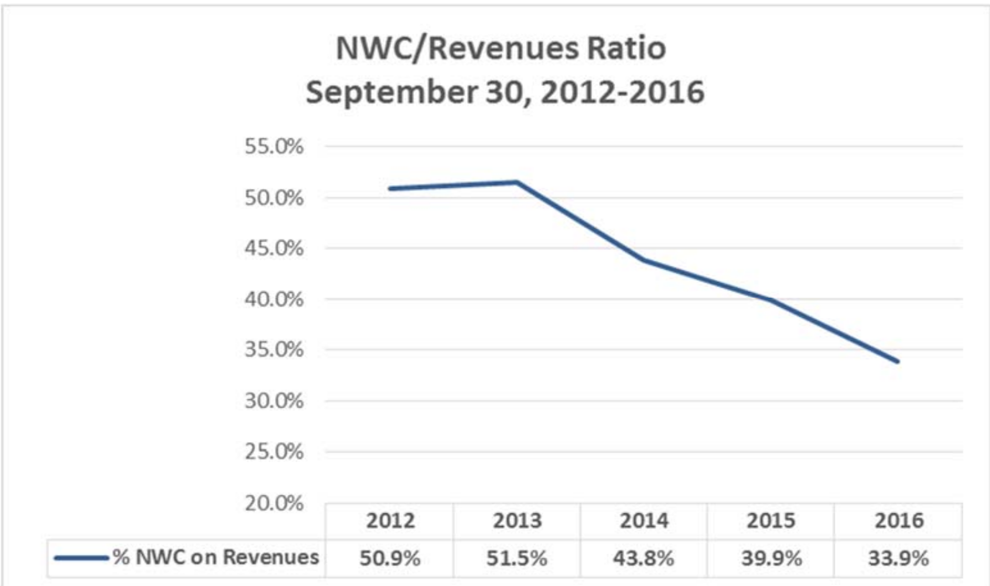
Net Working Capital decreased by Euro 7.2 million compared to 30 September 2015 (-5%). The reduction, albeit the growing turnover, is due to a specific choice of the management, aimed at optimizing the Net Working Capital/Revenues ratio.

In particular, the most incisive actions regarded stocks. The level of inventories decreased by Euro 2 million (-1.5%), compared to the same period of the previous year, with an increase in revenues of over 10% and an appreciable improvement in the stock turnover rate.

A positive trend is also reported as regards Trade Receivables, the growth of which is less than proportional to the change in revenues, with an improvement in "days sales outstanding".

The increase in Trade Payables substantially reflects the Group's higher turnover.

Despite the excellent results obtained, with the Net Working Capital/ Revenues ratio, which has progressively decreased from 50.9% to the current 33.9% over the last five years, we believe that, by straying in the virtuous policies adopted, there are still margins for a further improvement.



**Non-current assets**

Non-current assets have increased by Euro 10.7 million since the beginning of the year by effect of:

- capital expenditure for the period, of approximately Euro 25.5 million, of which Euro 11.3 million invested in Italy, Euro 3.9 million in Portugal and Euro 10.3 million in the United States.
- amortisation and depreciation for the period, amounting to Euro 14.0 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 0.8 million compared the end of 2015.

The important investment programme, commenced at the beginning of 2015, was continued in 2016. This programme involves all production sites and it aims at casting sound basis for the expected commercial development of all Group Business Units over the next few years.

All production hubs of Panariagroup have been involved in this expansion process of plants.

In Italy, the main investments concerned the plant in Fiorano Modenese, dedicated to the laminated stoneware in which, the third production line started its operation during 2016.
In addition to a higher production capacity of the site, this plant will permit significant advantages in terms of efficiency and productivity on the whole.
In this site, the new line for the polishing of metal plates was launched.

The most significant investment made in Portugal regarded the installation of a new polishing line in the plant of Ilhavo, which allows for the enlargement of the product range of polished and lapped products, also in large formats.

The third manufacturing line of porcelain stoneware has recently become operating in the plant of Lawrenceburg (USA). This plant is equipped with the most advanced technologies also in terms of production capacity, and will endow the US Business Unit with a plant which is more and more able to complete with the major manufacturing companies of the US ceramics sector, both in terms of costs and size.

## Net Financial Position

**Financial cash flow**
*(thousands euro)*

| | 30-Sept-2016 | 30-June-2016 | 31-Dec-2015 | 30-Sept-2015 |
|---|---|---|---|---|
| **Net financial position (debt) - beginning** | **(83.0)** | **(83.0)** | **(80.2)** | **(80.2)** |
| Net Result for the period | 7.1 | 5.4 | 5.9 | 4.4 |
| D & A | 14.0 | 9.1 | 17.4 | 13.0 |
| Net Variation Provisions | 3.9 | 3.1 | 4.3 | 4.9 |
| Non monetary changes | 0.1 | 0.1 | (0.1) | (0.3) |
| **Internal operating Cash flow** | **25.1** | **17.8** | **27.5** | **22.0** |
| Change in net working capital and other assets and liabilities | (1.9) | (8.4) | 7.9 | (5.0) |
| Net Investments | (25.7) | (16.1) | (37.2) | (22.7) |
| Exchange rate diff. from US$ financial statement conversions | 0.2 | 0.2 | (1.0) | (0.7) |
| **Net financial position (debt) - final** | **(85.3)** | **(89.6)** | **(83.0)** | **(86.6)** |

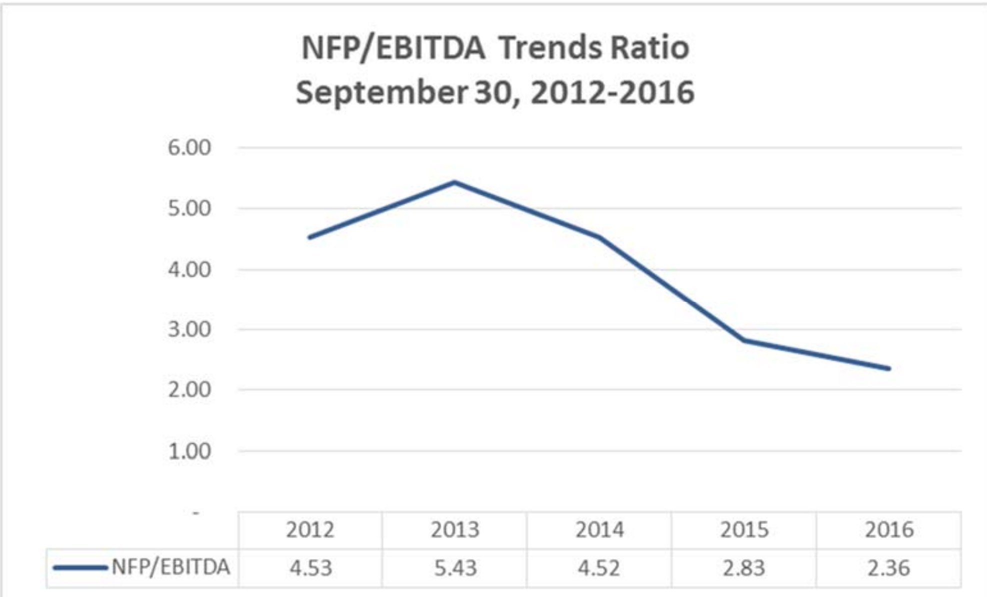
For a better understanding of the exchange rate effect on the Net Financial Position, a method of disclosing cash flows was adopted in which the changes in the single equity components are "free" from the exchange rate effect, which is entirely reported in the item "Changes in the Net Financial Position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

Net Financial Position increased by Euro 1.3 million compared to 30 September 2015.

Despite the high investments made, cost containment activities carried out on the Net Working Capital and the positive contribution resulting from the operating self-financing allowed the Group to maintain financial indebtedness in line with business plans.

In particular, it is worth noting that the NFP/EBITDA ratio has further improved, achieving 2.36.

The following chart shows the clear positive trend of the ratio, especially in the last two-year period:




Moreover, it is important to underline that medium-long term loans have been obtained in the last quarter. In our opinion, the current favourable economic conditions, in terms of interest rates, are an opportunity to seize, in view of improving the composition of the already adequate sources and in order to both cover any other further requirements connected with future opportunities, and mitigate risks of possible changes in the financial market.

## 5. OUTLOOK

The results of the third quarter of 2016 continued in the progressive improvement of the main economic-financial indicators, an evidence of a positive evolution of the Group's performance, founded on a sound basis.
For the last quarter of 2016, we expect to maintain the current trends and we are therefore confident that the year will end with a record growth for our Group, as well as with growing margins, if compared to last year.
Despite the fact that the years 2015 and 2016 have already been characterised by exceptionally high growth rates, we believe that the boost towards a further increase in turnover and profitability has not been exhausted yet.
In all three Business Units the Group is operating to implement strategies aimed at improving production efficiency and the effectiveness of commercial distribution and competitiveness on the whole, with an approach which is more and more the one of an international player.
The experience acquired over these years in managing the complex international approach, the strong willingness to continue along this path, combined with the soundness of the Group, will allow us to seize, in each single geographical area, all chances and opportunities that will come up from time to time.

## 6. SUBSEQUENT EVENTS

There are no significant events.