# INTERIM REPORT ON OPERATION AT 30 SEPTEMBER 2017

Panariagroup Industrie Ceramiche Spa

**TABLE OF CONTENTS**


1. **STRUCTURE OF THE GROUP**

2. **DIRECTORS AND OFFICIALS**
   **Board of Directors**
   **Board of Statutory Auditors**
   **Independent Auditors**

3. **INCOME STATEMENT AND BALANCE SHEET**
   **3.1 Income statement - Comparison between 30/09/2017 and 30/09/2016**
   **3.2 Income statement - Comparison between third quarters 2017 and 2016**
   **3.3 Income statement at 30/09/2017 broken down by quarters**
   **3.4 Reclassified balance sheet**
   **3.5 Net financial position**

4. **COMMENTS ON THE FINANCIAL STATEMENTS**
   **4.1 Accounting principles adopted**
   **4.2 Scope of consolidation**
   **4.3 Report on operations**

5. **OUTLOOK**

6. **SUBSEQUENT EVENTS**

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

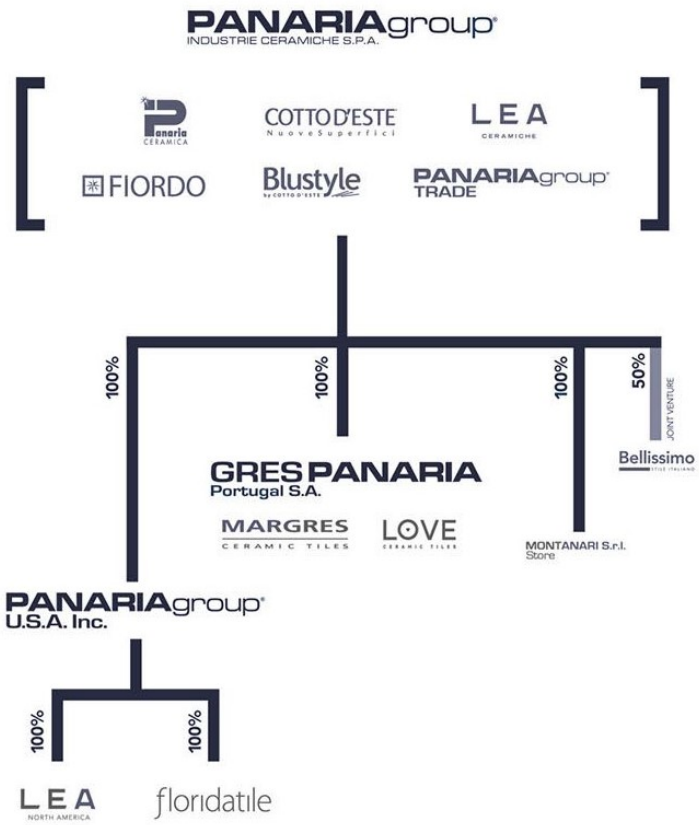
The warranty of a Group that, from its family roots in the Sassuolo area of ceramics to the listing in the Milan Stock Exchange, has grown to become a sound international business, operating at international level, but always with an Italian heart.

*Panariagroup is one of the leader manufacturers of ceramic tiles for floors and walls coverings. It employs over 1,600 staff, with 10,000 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 120 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 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 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.

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

| Nome e cognome | Carica |
|---|---|
| Mussini Emilio | Chairman of the Board of Managing Director |
| Mussini Paolo | Deputy Chairman and Managing Director |
| Mussini Andrea | Deputy Chairman |
| 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

| Nome e cognome | Carica |
|---|---|
| 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 30 September 2017 and 30 September 2016 (in thousands of Euro)

| | 30-Sept-2017 | % | 30-Sept-2016 | % | var. | var. % | var. inc % |
|---|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **295,030** | **92.51%** | **286,160** | **98.14%** | **8,870** | **3.10%** | **-5.64%** |
| Change in inventories of finished products | 15,176 | 4.76% | (3,152) | -1.08% | 18,328 | | 5.84% |
| Other revenues | 8,721 | 2.73% | 8,566 | 2.94% | 155 | 1.81% | -0.20% |
| **Value of Production** | **318,927** | **100.00%** | **291,574** | **100.00%** | **27,353** | **9.38%** | **0.00%** |
| Raw, ancillary and consumable materials | (88,827) | -27.85% | (83,040) | -28.48% | (5,787) | 6.97% | 0.63% |
| Services, leases and rentals | (120,441) | -37.76% | (108,340) | -37.16% | (12,101) | 11.17% | -0.61% |
| Personnel costs | (71,596) | -22.45% | (68,188) | -23.39% | (3,408) | 5.00% | 0.94% |
| Changes in inventories of raw materials | (2,705) | -0.85% | (2,380) | -0.82% | (325) | 13.66% | -0.03% |
| **Cost of production** | **(283,569)** | **-88.91%** | **(261,948)** | **-89.84%** | **(21,621)** | **8.25%** | **0.93%** |
| **Gross operating profit** | **35,358** | **11.09%** | **29,626** | **10.16%** | **5,732** | **19.35%** | **0.93%** |
| D&A expenses | (16,423) | -5.15% | (13,998) | -4.80% | (2,425) | 17.32% | -0.35% |
| Provisions and other impairments | (1,181) | -0.37% | (1,255) | -0.43% | 74 | -5.90% | 0.06% |
| **Net operating profit** | **17,754** | **5.57%** | **14,373** | **4.93%** | **3,381** | **23.52%** | **0.64%** |
| Financial income and expense | (3,195) | -1.00% | (2,740) | -0.94% | (455) | 16.61% | -0.06% |
| **Pre-tax profit** | **14,559** | **4.56%** | **11,633** | **3.99%** | **2,926** | **25.15%** | **0.58%** |
| Income taxes estimated | (4,455) | -1.40% | (4,544) | -1.56% | 89 | -1.96% | 0.16% |
| **Net profit (loss) for the period** | **10,104** | **3.17%** | **7,089** | **2.43%** | **3,015** | **42.53%** | **0.74%** |

## 3.2 Income Statement - Comparison between Third Quarter 2017 and Third Quarter 2016 (in thousands of Euro)

| | Q3 2017 | % | Q3 2016 | % | Var | Var. % |
|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **88,192** | **91.49%** | **92,815** | **100.38%** | **(4,623)** | **-4.98%** |
| Change in inventories of finished products | 5,160 | 5.35% | (3,197) | -3.46% | 8,357 | |
| Other revenues | 3,038 | 3.15% | 2,842 | 3.07% | 196 | 6.90% |
| **Value of Production** | **96,390** | **100.00%** | **92,460** | **100.00%** | **3,930** | **4.25%** |
| Raw, ancillary and consumable materials | (27,746) | -28.79% | (26,681) | -28.86% | (1,065) | 3.99% |
| Services, leases and rentals | (37,841) | -39.26% | (35,459) | -38.35% | (2,382) | 6.72% |
| Personnel costs | (22,331) | -23.17% | (21,312) | -23.05% | (1,019) | 4.78% |
| Changes in inventories of raw materials | (998) | -1.04% | (766) | -0.83% | (232) | 30.29% |
| **Cost of production** | **(88,916)** | **-92.25%** | **(84,218)** | **-91.09%** | **(4,698)** | **5.58%** |
| **Gross operating profit** | **7,474** | **7.75%** | **8,242** | **8.91%** | **(768)** | **-9.32%** |
| D&A expenses | (5,808) | -6.03% | (4,863) | -5.26% | (945) | 19.43% |
| Provisions and other impairments | (97) | -0.10% | 9 | 0.01% | (106) | |
| **Net operating profit** | **1,569** | **1.63%** | **3,388** | **3.66%** | **(1,819)** | **-53.69%** |
| Financial income and expense | (734) | -0.76% | (722) | -0.78% | (12) | 1.66% |
| **Pre-tax profit** | **835** | **0.87%** | **2,666** | **2.88%** | **(1,831)** | **-68.68%** |
| Income taxes estimated | (311) | -0.32% | (995) | -1.08% | 684 | -68.74% |
| **Net profit (loss) for the period** | **524** | **0.54%** | **1,671** | **1.81%** | **(1,147)** | **-68.64%** |

## 3.3 Income statement at 30/09/2017 broken down by quarters
(in thousands of Euro)

| | Q1 2017 | % | Q2 2017 | % | Q3 2017 | % | 30-Sept-2017 | % |
|---|---|---|---|---|---|---|---|---|
| **Revenues from sales and services** | **99,272** | **92.84%** | **107,566** | **93.04%** | **88,192** | **91.49%** | **295,030** | **92.51%** |
| Change in inventories of finished products | 5,307 | 4.96% | 4,709 | 4.07% | 5,160 | 5.35% | 15,176 | 4.76% |
| Other revenues | 2,344 | 2.19% | 3,339 | 2.89% | 3,038 | 3.15% | 8,721 | 2.73% |
| **Value of Production** | **106,923** | **100.00%** | **115,614** | **100.00%** | **96,390** | **100.00%** | **318,927** | **100.00%** |
| Raw, ancillary and consumable materials | (30,229) | -28.27% | (30,852) | -26.69% | (27,746) | -28.79% | (88,827) | -27.85% |
| Services, leases and rentals | (38,901) | -36.38% | (43,699) | -37.80% | (37,841) | -39.26% | (120,441) | -37.76% |
| Personnel costs | (24,674) | -23.08% | (24,591) | -21.27% | (22,331) | -23.17% | (71,596) | -22.45% |
| Changes in inventories of raw materials | (882) | -0.82% | (825) | -0.71% | (998) | -1.04% | (2,705) | -0.85% |
| **Cost of production** | **(94,686)** | **-88.56%** | **(99,967)** | **-86.47%** | **(88,916)** | **-92.25%** | **(283,569)** | **-88.91%** |
| **Gross operating profit** | **12,237** | **11.44%** | **15,647** | **13.53%** | **7,474** | **7.75%** | **35,358** | **11.09%** |
| D&A expenses | (5,113) | -4.78% | (5,502) | -4.76% | (5,808) | -6.03% | (16,423) | -5.15% |
| Provisions and other impairments | (370) | -0.35% | (714) | -0.62% | (97) | -0.10% | (1,181) | -0.37% |
| **Net operating profit** | **6,754** | **6.32%** | **9,431** | **8.16%** | **1,569** | **1.63%** | **17,754** | **5.57%** |
| Financial income and expense | (720) | -0.67% | (1,741) | -1.51% | (734) | -0.76% | (3,195) | -1.00% |
| **Pre-tax profit** | **6,034** | **5.64%** | **7,690** | **6.65%** | **835** | **0.87%** | **14,559** | **4.56%** |
| Income taxes estimated | (2,009) | -1.88% | (2,135) | -1.85% | (311) | -0.32% | (4,455) | -1.40% |
| **Net profit (loss) for the period** | **4,025** | **3.76%** | **5,555** | **4.80%** | **524** | **0.54%** | **10,104** | **3.17%** |

3.4 Reclassified balance sheet
(in thousands of Euro)

| | 30-Sept-2017 | 30-June-2017 | 31-Dec-2016 | 30-Sept-2016 |
|---|---|---|---|---|
| Inventories | 149,408 | 145,945 | 140,173 | 134,290 |
| Accounts Receivable | 86,119 | 97,389 | 79,903 | 85,192 |
| Other current assets | 11,970 | 12,076 | 13,657 | 11,585 |
| **CURRENT ASSETS** | **247,497** | **255,410** | **233,733** | **231,067** |
| Account Payables | (84,163) | (84,907) | (83,647) | (76,972) |
| Other current liabilities | (31,401) | (31,815) | (28,097) | (28,772) |
| **CURRENT LIABILITIES** | **(115,564)** | **(116,722)** | **(111,744)** | **(105,744)** |
| **NET WORKING CAPITAL** | **131,933** | **138,688** | **121,989** | **125,323** |
| Goodwill | 8,139 | 8,139 | 8,139 | 8,139 |
| Intangible assets | 14,340 | 14,251 | 13,967 | 10,019 |
| Tangible assets | 121,342 | 117,432 | 119,595 | 115,547 |
| Equity Investments and other financial assets | 446 | 48 | 82 | 6 |
| **FIXED ASSETS** | **144,267** | **139,870** | **141,783** | **133,711** |
| Receivables due after following year | 635 | 653 | 777 | 715 |
| Provision for termination benefits | (5,752) | (5,794) | (5,913) | (5,762) |
| Provision for risk and charge | (5,222) | (4,951) | (4,725) | (4,533) |
| Deferred tax assets | 3,039 | 2,993 | 5,405 | 6,966 |
| Other payables due after the year | (2,623) | (2,473) | (3,386) | (6,369) |
| **ASSET AND LIABILITIES DUE AFTER THE YEAR** | **(9,923)** | **(9,572)** | **(7,842)** | **(8,983)** |
| **NET CAPITAL EMPLOYED** | **266,277** | **268,986** | **255,930** | **250,051** |

| | | | | |
|---|---|---|---|---|
| Short term financial assets | (11,179) | (7,273) | (16,995) | (14,053) |
| Short term financial debt | 40,345 | 41,147 | 36,505 | 37,073 |
| **NET SHORT TERM FINANCIAL DEBT** | **29,166** | **33,874** | **19,510** | **23,020** |
| Mid-Long term financial debt | 65,445 | 61,458 | 64,202 | 62,327 |
| **NET FINANCIAL POSITION** | **94,611** | **95,332** | **83,712** | **85,347** |
| Group Shareholder's Equity | 171,666 | 173,654 | 172,218 | 164,704 |
| **SHAREHOLDERS' EQUITY** | **171,666** | **173,654** | **172,218** | **164,704** |
| **TOTAL SOURCES OF FOUNDS** | **266,277** | **268,986** | **255,930** | **250,051** |

## 3.5 Consolidated Net Financial Position
(in thousands of Euro)

| | 30-Sept-2017 | 30-June-2017 | 31-Dec-2016 | 30-Sept-2016 |
|---|---|---|---|---|
| Securities | - | - | - | - |
| Cash and cash equivalents | (11,179) | (7,273) | (16,995) | (14,053) |
| **Short-term financial assets** | **(11,179)** | **(7,273)** | **(16,995)** | **(14,053)** |
| Due to banks | 40,125 | 40,902 | 36,238 | 36,821 |
| Leasing | 220 | 245 | 267 | 252 |
| **Short-term financial indebtedness** | **40,345** | **41,147** | **36,505** | **37,073** |
| Due to banks | 65,208 | 61,193 | 63,784 | 61,867 |
| Leasing | 237 | 265 | 418 | 460 |
| Due to bondholders | - | - | - | - |
| **Long-term financial indebtedness** | **65,445** | **61,458** | **64,202** | **62,327** |
| **Net financial indebtedness** | **94,611** | **95,332** | **83,712** | **85,347** |

## 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 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.

## 4.3 Report on operations

***Income statement - Key figures at 30 September 2017***
*(in thousands of Euro)*

| | 30-Sept-2017 | % | 30-Sept-2016 | % | var. € | % |
|---|---|---|---|---|---|---|
| Revenues from sales and services | 295,030 | 92.51% | 286,160 | 98.14% | 8,870 | 3.10% |
| Value of Production | 318,927 | 100.00% | 291,574 | 100.00% | 27,353 | 9.38% |
| Gross operating profit | 35,358 | 11.09% | 29,626 | 10.16% | 5,732 | 19.35% |
| Net operating profit | 17,754 | 5.57% | 14,373 | 4.93% | 3,381 | 23.52% |
| Pre-tax profit | 14,559 | 4.56% | 11,633 | 3.99% | 2,926 | 25.15% |
| Net profit for the period | 10,104 | 3.17% | 7,089 | 2.43% | 3,015 | 42.53% |

Briefly, the results for the period are the following:

- **Consolidated revenues** from sales amounted to **Euro 295.0 million**, an increase of **3.1%** on September 2016.
- **Gross operating profit** amounted to **Euro 35.4 million** (Euro 29.6 million at 30 September 2016), up by **19.3**%.
- **Net operating profit** amounted to **Euro 17.8** million (Euro 14.4 million at 30 September 2016), up by **23.5**%.
- **Net consolidated result** is a profit of **Euro 10.1 million** (Euro 7.1 million at 30 September 2016), up by **42.5**%.

Compared to 2016, the results reported in the first nine months of the year highlighted a growth in sales and a significant improvement in profitability, with an increase in net profit of over 40%, mostly attributable to the Italian Business Unit, as a consequence of a positive and clear trend reversion compared to the past.

During the third quarter of 2017, we moreover notice a reduction in sales, compared to the same period of the previous year, mainly due to the US Business Unit, in relation to two factors, external to the management and difficult to forecast.

First of all, in the translation into Euro of the financial statements of the US companies the depreciation of the US Dollar against the Euro (-5.2% QoQ) involved a negative impact on sales, which is merely related to the accounting field.

Secondly, the "Harvey" and "Irma" hurricanes, which severely hit Texas, then Florida and Georgia, caused the total suspension, for various days, of the business in our shops Florida Tile, located in those areas.
More generally, these weather phenomena caused a substantial stop of building activities, for a longer period than their actual occurrence in an extended geographic area, and involved many of our customers/distributors.

The third quarter sales performance was also affected by the significant decrement in revenues on the African market, decrease that did not affect only our Group, but the entire ceramic sector.

While comparing the third quarter with the two previous ones, it should be recalled that the European market (Italy and Portugal Business Units) is affected by summer holidays, in August, as regards sales and production, as well as by costs due to the attendance to the main exhibition in the segment, Cersaie, which takes place in Italy, in Bologna, in September.

The quantity of orders collected on the occasion of this exhibition, together with the positive summary figures on sales reported in October, led us to have confidence in the overall performance of the fourth quarter, which we deem might confirm the results achieved in the first nine months of the year.

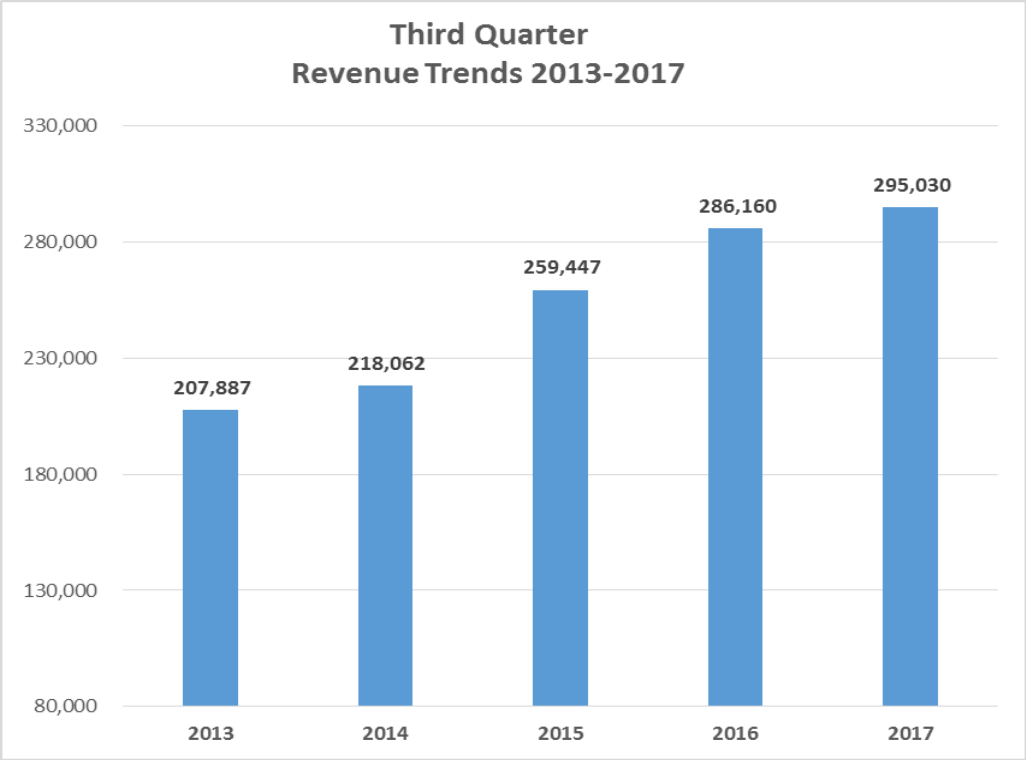
In relation to the fourth quarter, we note that the average exchange rate for the period October-December 2016 was 1.08, compared with an average exchange rate of October 2017 of 1,175.

The financial statements at 30 September 2017 confirmed almost unchanged the good results achieved in the main performance indicators selected by the Group, such as the "NFD / EBITDA" ratio and the "Net Working Capital / Sales" ratio.

**Consolidated Revenues**

**Net revenues** from sales increased, further rising from Euro 286.2 million at 30 September 2016 to Euro 295.0 million at 30 September 2017 (Euro +8.9 million).

The chart below shows how the Group has developed important growth targets, year after year over the last five years. In particular, during the first nine month of the year, an increase in sales of over Euro 87 million should be noted from 2013 to 2017.




The year 2017 can be considered as another record year for the Group, an evidence of our well-established corporate and commercial organization.

**Main reference markets**

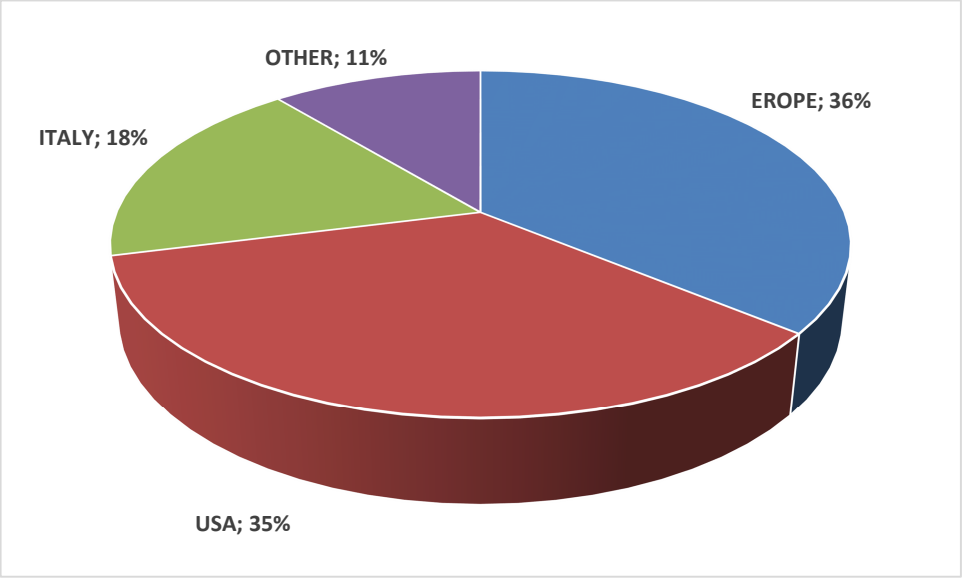
The **European markets** recorded an overall excellent growth of 9%.
The areas that have contributed most to this performance are Germany, Portugal, Great Britain and Russia.
Germany represents the most important European market for this segment, and has been the subject of targeted activities for commercial development, which are succeeding to the benefit of both the Italian and the Portuguese Business Units. With reference to the Portuguese market, over the last few years Gres Panaria Portugal stood out, with respect to other local competitors, and gained significant shares in a not particularly dynamic market.
The general trend of the European markets is positive, as it is highlighted by the Italian exports to these areas, a 4% growth compared to 2016, as reported by the recent Confindustria Ceramica survey.
European markets accounted for **36**% of total revenues.

Sales related to the **US market** are substantially in line with last year's figures, despite the fact that the third quarter was characterised by a slowdown generated by exceptional climate-related factors.
For 2018, the outlook on the US market is positive and we deem that the Group will be able to fully take benefit from this market trend, mostly thanks to its structured and direct presence on the territory, with Florida Tile, Panariagroup USA and Lea North America.
The US market accounted for **35**% of total revenues.

The Italian market reported a good performance, with a growth over 5%. We reported, on the one hand a more lively segment, generally resulting in better results than 2016, and on the other hand, and above all, the recovery of market shares, mainly thanks to the activities carried out by the Group for a stronger presence on the domestic market.
The Italian market accounted for **18**% of total revenues.

The **other markets (Asia, Canada, South America, Oceania and Africa)** reported a slowdown of around 5%, which was almost entirely due to a drop in sales in the African continent.
This is still a very volatile market as it is characterised by orders of a significant amount but that cannot be regularly executed. It should be also noted that, in 2017, the entire sector reported similar trends to our business.
The performance of the Australian and Far East markets was instead positive.
The "other markets" accounted for **11**% of total revenues.

The revenues of the Group's **foreign markets** therefore accounted for **82**% of total revenues. **Non-European markets** accounted for **46**% of revenues.




The strong presence on the international markets, both through direct investees and a thorough sales network, is one of the distinctive factors of Panariagroup, compared to most competitors.

**Performance of the Group's Divisions**

The **Italian Business Unit** reported the best sales and the greatest growth, in absolute terms, in turnover compared to 2016.
The increase in sales equally involved both the Italian and foreign markets. The organizations of Panariagroup Trade, Cotto d'Este / Blustyle and the Private Label Division (Toll Manufacturing) contributed the most to the achievement of this excellent result.

The **Portuguese Business Unit** reported an excellent growth. A significant increase in sales occurred in the "core business" areas of Gres Panaria Portugal (Portugal and Western Europe), especially in the domestic market and in Germany, while the African market reported a significant decrease.

The **US Business Unit** is almost in line with 2016, despite the already mentioned exceptional events that took place in the third quarter.
As regards the USA, it should be noted that some important tax novelties are emerging, which should have a positive impact on our US companies.
In particular, the tax reform announced by the new administration aims at a significant reduction in tax rates applied to individuals and companies. The actual implementation would not only represent an immediate advantage, in terms of lower taxes, but also an acceleration factor of consumption thanks to greater financial resources available to households.
Without taking account of the potential effects of this reform, the expected consumption of ceramics in the US market will continue to be positive and will support the development programs on all sales channels.

**Operating results**

**Gross operating profit** came to **Euro 35.4 million**, representing 11.1% of the Value of Production (Euro 29.6 million at 30 September 2016, or 10.2% of the Value of Production), with a growth of Euro 5.7 million (+19.4%).

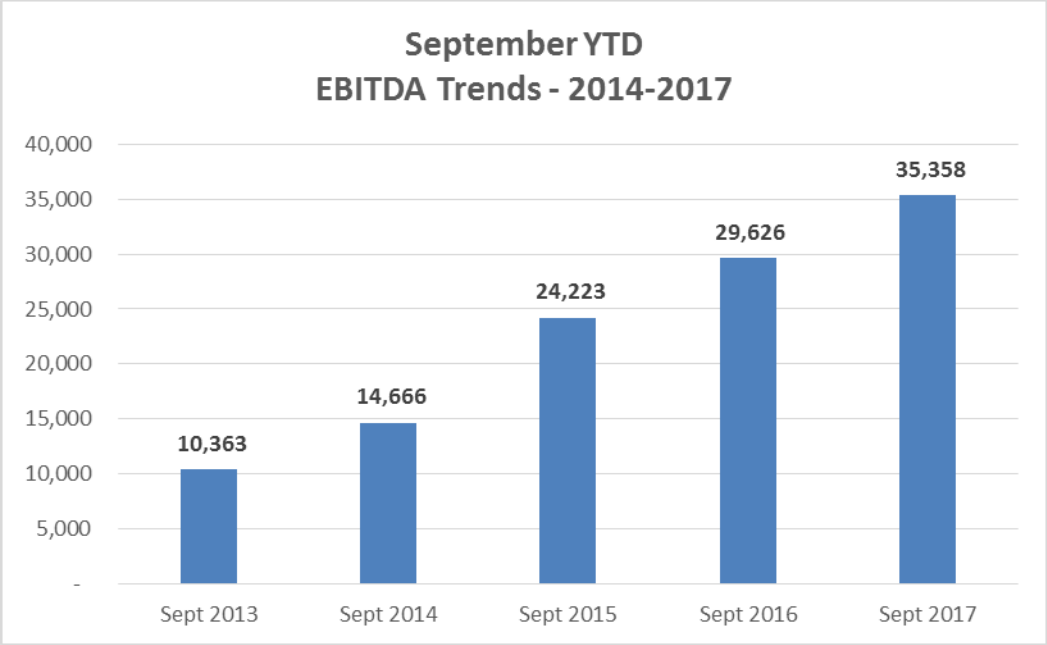
The growth in turnover and the reduction of production costs are still the main improvement factors.

The increase in revenues was determined by an increase in volumes, as the price remained substantially unchanged compared to the amounts of last year.

The reduction in production costs was the consequence of three main elements:

- The increase in volumes produced; the higher use of the production capacity led to a significant reduction in unit fixed costs;
- Investments made in the last two years took full effect. The most advanced technologies implemented in plants allowed us to achieve savings thanks to a higher production capacity;
- Reduction in energy tariffs in European plants. Thanks to advantageous tariffs compared to 2016, savings on energy costs were obtained.

The excellent improvement of Gross Operating Profit was confirmed in 2017, with a growth of Euro 5.7 million compared to the first nine month of 2016.

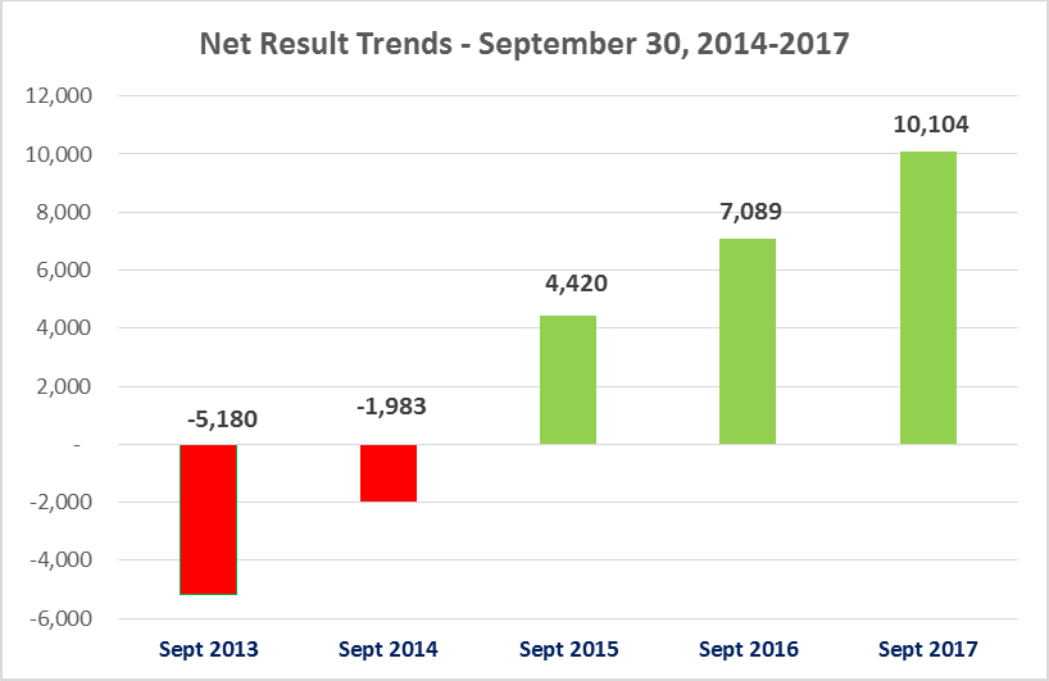



**Net Operating Profit** amounted to Euro 17.8 million (Euro 14.4 million at 30 September 2016), a positive change of Euro 3.4 million.

Amortisation/depreciation rose by Euro 2.4 Euro, due to the relevant investments made during the 2015-2016 two-year period. It should be therefore noted that the impact on the Value of Production, equal to 5.1%, is however lower than the average of the sector.

The impact of Financial expenses on the Value of Production was limited. This result is due to very low interest rates and a careful and prudent treasury management.

**Consolidated Net Result** amounted to Euro 10.1 million (Euro 7.1 million at 30 September 2016), a growth of Euro 3 million.




The performance of net result also highlights a significant positive progression that led from the loss of Euro 5.2 million recorded in September 2013, to the profit of Euro 10.1 million recorded in September 2017, with an improvement of over Euro 15 million.

**Review of the balance sheet**

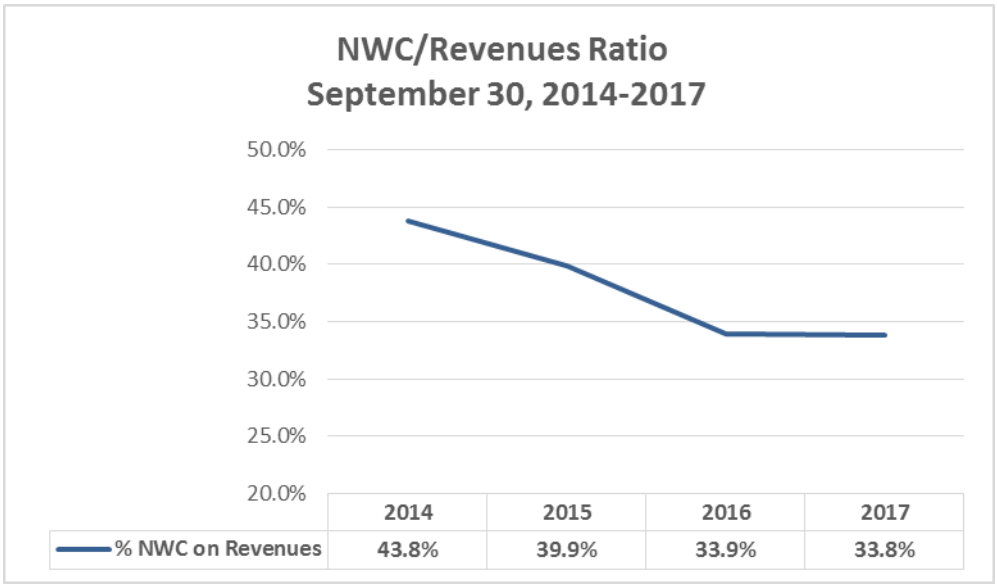
***Balance sheet summary***

***(in thousands of Euro)***

| | 30-Sept-2017 | 30-June-2017 | 31-Dec-2016 | 30-Sept-2016 |
|---|---|---|---|---|
| Net Working Capital | 131,933 | 138,688 | 121,989 | 125,323 |
| Fixed Assets | 144,267 | 139,870 | 141,783 | 133,711 |
| Assets and Liabilities due after the year | (9,923) | (9,572) | (7,842) | (8,983) |
| NET CAPITAL EMPLOYED | 266,277 | 268,986 | 255,930 | 250,051 |
| Net Financial Position | 94,611 | 95,332 | 83,712 | 85,347 |
| Shareholders' Equity | 171,666 | 173,654 | 172,218 | 164,704 |
| TOTAL SOURCES OF FOUNDS | 266,277 | 268,986 | 255,930 | 250,051 |

**Net Working Capital**

Net Working capital grew by 4%, compared to the same period of the previous year, and it is almost in line with the change in sales, thus confirming the NWC/Revenues ratio lower than 34%.
Taking account of the inventory increase, the production planning of the last quarter was defined in view of maintaining a balanced stock turnover rate.
The performance of Trade Receivables reflects an improvement in average days sales outstanding. The current economic context, which is less critical compared to the recent past, permits to maintain a lower percentage of overdue payments. The great impact of foreign markets, characterised by more "virtuous" commercial practices than the Italian market, in terms of payment extensions, had also a positive impact.
The growth in Trade payables is consistent with the increase in Value of Production and is therefore a consequence of higher production volumes made compared to 2016.




Note to the Chart - In determining the ratio, Revenues over the last 12 months were taken into account.

**Non-current Assets**

Non-current assets have increased by Euro 2.5 million since the beginning of the year by effect of:

- Capital expenditure for the period, of approximately Euro 23.6 million, of which Euro 10.3 million invested in Italy, Euro 7.2 million in Portugal and Euro 6.1 million in the United States.
- Amortisation and depreciation for the period, amounting to Euro 16.4 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 4.7 million compared the end of 2016.

The most important investment planned for the period, also regarding management, is still being implemented and relates to the installation of a complete line, of the latest generation, in the plant in Aveiro (Portugal). The strengthening of the Portuguese production structure reflects the development that Gres Panaria Portugal has implemented over the last few years and also aims at even more enhancing its strategic function as manufacturing pole for all Panariagroup Brands.

With reference to the US Business Unit, the new logistical infrastructures are now operating in the National Distribution Centre. This intervention completes the extensive plan started in 2016 and aimed at strengthening logistics and production.
On the industrial front, the department for the glaze preparation was enlarged and is now fully able to support greater production capacity resulting from the installation of the third furnace and was made the creation of a new R&D structure, wider and more modern, able to meet the growing demands of the Lawrenceburg plant.
A significant investment in the commercial area involved the moving and enlargement of some important branches, in view of further developing their commercial activities.
Lastly, it is worth noting the restructuring of the headquarters in Lexington, aimed at doubling the available area of Florida Tile. The headquarters, where we have been operating since 2010, need an adjustment to the changed sizes of the Company.

The three Italian plants also underwent technological upgrading and improvements of production efficiency. It is worth noting that the tax incentive included in the "Industria 4.0 package", which envisages the iper-upgrading of some categories of assets that are characterised by a special innovative concept, represented an accelerating factor to make investments already envisaged in the Group's industrial development plan.
Some of the most important improvements are the installation of a new dryer, the purchase of digital machines of the latest generation, the building of new grinding and cutting lines and the changes in the logistic management of flows of material within the plant in Fiorano Modenese.

The implementation of the integration project of the information system of all Group Business Units continued with the adoption of one single platform (SAP), after the start-up of the new software in January 2017, for three American companies (Florida Tile, Panariagroup USA e Lea North America). We are working to progressively extend this project to the Portuguese and Italian Business Units.

The high average of investments made over the last three years is the evidence of the strategic value of innovation and of the key importance that the industrial component plays for the Group.

**Net Financial Position**

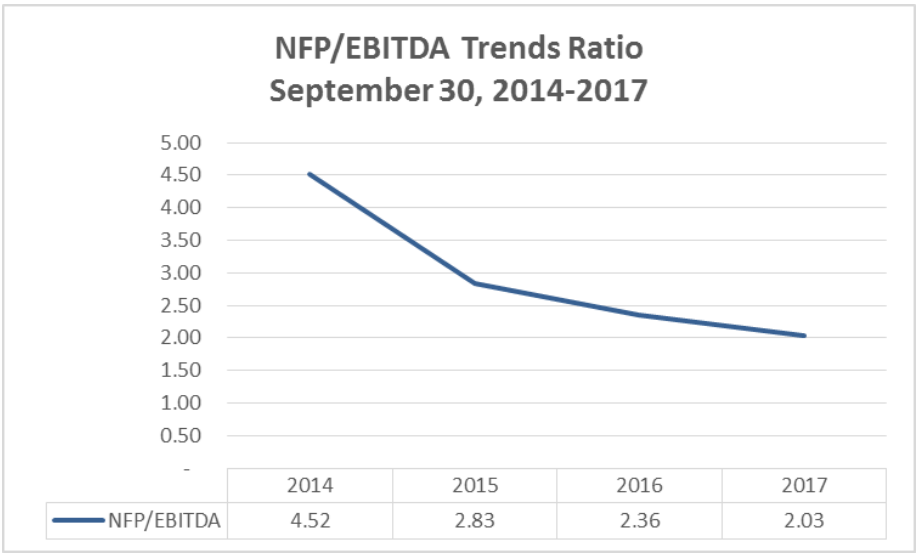
**Financial cash flow**

*(thousands euro)*

| | 30-Sept-17 | 30-June17 | 31-Dec-16 | 30-Sept-16 |
|---|---|---|---|---|
| **Net financial position (debt) - beginning** | **(83.7)** | **(83.7)** | **(83.0)** | **(83.0)** |
| Net Result for the period | 10.1 | 9.6 | 11.2 | 7.1 |
| D & A | 16.4 | 10.6 | 19.4 | 14.0 |
| Net Variation Provisions | 3.1 | 3.0 | 6.8 | 3.9 |
| Non monetary changes | (0.6) | 0.1 | (0.1) | 0.1 |
| **Internal operating Cash flow** | **29.1** | **23.3** | **37.3** | **25.1** |
| Change in net working capital and other assets and liabilities | (13.5) | (19.9) | (1.2) | (1.9) |
| Net Investments | (24.3) | (12.5) | (36.7) | (25.7) |
| Dividends | (3.1) | (3.1) | - | - |
| Change in translation reserve | 1.0 | 0.5 | (0.1) | 0.2 |
| **Net financial position (debt) - final** | **(94.6)** | **(95.3)** | **(83.7)** | **(85.3)** |

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.

The Net Financial Position slightly improved compared to the previous quarter (Euro 0.7 million) and worsened by Euro 10.9 million compared to the beginning of the year, including Euro 3.1 million destined to shareholders through dividend distribution.
The operational self-financing (clearly improved) was in fact destined to the financing of the significant investments and the growth in the Net Working Capital.
The NFP/EBITDA ratio has a positive performance and is approaching level 2.




Note to the Chart - In determining the ratio, EBITDA of the last 12 months was taken into account.

The focus remain high, within the Group management, to the maintenance of a balanced financial exposure, with respect to sales and economic results, was highly successful.

## 5. OUTLOOK

In light of the first 9 months of the year, we confirm the positive evaluation of the results obtained and new future perspectives of the Group.

We deem that one of the strong points in our Group is represented by the geographical diversification, aimed at obtaining an overall growth trend, over time, albeit in the presence of markets that are performing differently. The quarter that has now ended is the evidence of this, with its good results achieved in the European Business Units, which permitted to offset the external extraordinary events that affected our US Business Unit.

With reference to the last part of the year, we confirm our growth expectations and the maintenance of the positive trend recorded over the first nine months, trusting in the absence of significant external events and supported by the positive performance of sales recorded in October.

As of today, all Group Business Units operate with a positive profitability. While relying on these strong points, we are continuing to achieve, in 2018, further progress, above all in the Italian and US Business Units, where we reported the greatest improvement margins and where we expect to benefit from the positive effects of initiatives implemented.

The Group is today one of the world leader companies in the ceramics sector, in terms of internationalization, technology, ability of interpreting market trends and business management.
Our medium-long term strategies are aimed at maintaining the current position of the Group amongst the main players in the market. In this sense, our ability of confirming our opening to new technologies, product innovation and new markets will be a key factor, supported by values and excellence that the Italian area of ceramics has always strived to hold.

Ceramics are becoming more and more a "universal" material, and their intended use, compared to traditional uses, has widened significantly.
The quality, technical and aesthetic features, as well as their competitive cost, render ceramics an interesting material for applications, such as "outdoor" flooring and kitchen tops, that were mainly performed by other products in the past. More generally, ceramics can be a substitute material of marble, natural stones and wood in many other uses.
These trends, which are very clearly emerging, and for which benefits are expected in the next few years, drive us to further implement our industrial and commercial development strategies.

## 6. SUBSEQUENT EVENTS

There are no significant events.