PRESS RELEASE

FIRST QUARTER 2018 – US DOLLAR EMPHASIZE PANARIAGROUP SLOWDOWN

Panariagroup Industrie Ceramiche S.p.A.: the Board of Directors approved the Consolidated Quarterly Report as of 31st March 2018.

- **Consolidated net revenues from sales totalled Euro 90.0 million, marking a drop of 9.2% compared to March 2017.**
- **The gross operating profit was Euro 5.8 million.**
- **The net operating profit was Euro 0.6 million.**
- **The consolidated net result was a loss of Euro 0.3 million.**

The Board of Directors of Panariagroup Industrie Ceramiche S.p.A., Group specialized in production and distribution of high-end and luxury ceramic material for floor and wall, approved today the Consolidated Quarterly Report as of 31st March 2018, in accordance with the International Financial Reporting Standard (IFRS).

The reduction in revenues in the first quarter of 2018, amounting to Euro 9.1 million, compared to the first quarter of 2017, was determined for Euro 4.6 million by the trend in the EUR/USD exchange rate and for Euro 4.5 million by the fall in turnover.

Particularly, the US currency registered a depreciation of 15.45%, passing from an average exchange rate of 1.0648 in the first quarter of 2017, to an average exchange rate of 1.2292 in the first quarter of 2018.

It should be noted that turnover in the first quarter of 2018, based on the same exchange rate as the first quarter of 2017, would have been Euro 94.6 million, marking an actual reduction of 4.5% in sales. This ratio, concerned almost all business units of the Group homogeneously, was reflected in the general trend registered in the first few months of 2018 in the Italian Ceramic Industry.

The reduction in profit margins is the direct consequence of the drop in turnover which, associated to the planned reduction in production, involved an increase in the average costs of production due to a greater incidence of the fixed and semi-variable costs.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(thousand Euros)

Nature	31st March 2018	31st March 2017	Var. €
Revenues from sales and services	89,984	99,111	(9,127)
Value of production	97,119	106,762	(9,643)
Gross operating profit	5,843	12,076	(6,233)
Net operating profit	624	6,593	(5,969)
Consolidated net profit	(295)	4,025	(4,320)

"In the second half of 2017, and in the first quarter of 2018, we noted a general slowdown in the sector performances, which also affected our Group – said **Emilio Mussini, Chairman of Panariagroup** – The air of uncertainty across the board, and the geo-political tensions that have emerged in the last few months have contributed to reducee the propensity to invest in constructions".

"Panariagroup, - continued **Mussini** - over the years, has always managed, through product diversification, geographical area and sales channels initiatives, to successfully take on the market competition and we believe that we meet all the requirements to continue our process of development with awareness and confidence."

REVENUES

Net revenues from sales dropped by Euro 9.1 million, down from Euro 99.1 million recorded as at 31st March 2017, to Euro 90.0 million as at 31st March 2018. However, in performing a comparison with the first quarter of 2017, it should not be forgotten that this quarter was a record one for Panariagroup.

Compared to the main reference markets, the Group has operated with diversified results, including growth on the Italian and Portuguese markets.

EUROPE - The **European markets**, on the whole, registered a decrease of 4%, with different trends in the various areas. In contrast to a decrease on the results in Germany, Spain, Belgium and the Netherlands, we recorded good performances in the Portugal, United Kingdom, Greece, Austria, Switzerland, Russia and in Eastern Europe.
The impact of the European markets on total revenues was **38%.**

UNITED STATES – The turnover on the **US market,** expressed in dollars, fell by over 6%.
The impact of the US market on total revenues was **32%.**

ITALY – The **Italian market** recorded a markedly positive performance, with growth of over 6%, bucking the trend recorded by Italian competitors (down slightly by 2%).
The impact of the Italian market on total revenues was **20%.**

ASIA, CANADA, SOUTH AMERICA, OCEANIA AND AFRICA – In accordance to sector performance, the **other markets** suffered a significant decrease of around 20%; primarily attributable to the performance recorded in the Middle East and in Africa, areas currently at the centre of severe geo-political tensions.
The impact of the "other markets" on total revenues was **10%.**

The turnover of the Group's **foreign markets** is therefore equal to **80%** of the total, with the share of **non-European markets** equal to **42%** of total turnover.

OPERATING RESULTS

Gross operating profit came to **Euro 5.8 million**, representing 6.0% of the value of production (Euro 12.1 million as at 31st March 2017, equal to 11.3% of the value of production).

The fall in profit margins concerned all the Group's Business Units, and is directly related with the factors outlined previously.

The Italian and US Business Units recorded a similar performance, with a reduction in revenues and a slowdown in production activities, which involved an increase in the average production cost with a greater incidence of fixed costs.
The capital intensity characterises that are typical of our sector ensure that a reduction in the volumes produced corresponds to an immediate and significant impact in terms of profit margins.

The Portuguese Business Unit was negatively impacted not only by the reduction in revenues, but the costs of starting up the new production line, which were expensed in full to the Income Statement.

Note should also be taken of the rise in the costs of energy tariffs, which represent an important variable in the cost of production of ceramics, for European Business Units, with an impact on the Portuguese Business Unit in particular.

Another element that is temporarily impacting the income statement negatively is the start-up commercial investment in “Contract & Key Account” structure, created with the objective of seizing the segment of major works and of the architectural projects with world value.

Net operating profit amounted to Euro 0.6 million (Euro 6.6 million as at 31st March 2017).

Amortisation, depreciation and provisions are in line with 2017 and had a total incidence of 5.4% on the value of production.

Financial expenses rose by Euro 0.5 million compared to the first quarter of 2017, due solely to the effect of higher exchange losses incurred (Euro 0.6 million compared to Euro 0.1 million in 2017).

The **consolidated net result** was a loss of Euro 0.3 million (profit of Euro 4.0 million as at 31st March 2017).

NET FINANCIAL POSITION

The Net Financial Position worsened by Euro 12.6 million compared to 31st December 2017.
A primary component of this trend is the natural absorption of cash, typical of the first quarter of the year, deriving from the performance of working capital, in addition to a reduction in the internal operating cash flow level, due to the drop in profit margins.
We expect benefits in the second part of the year, owing to lower investments and production planning, which will be heavily focused on optimising working capital.

Despite the worsening, the NFP/EBITDA ratio remains at normal levels, in terms of absolute value.

OUTLOOK FOR GROUP OPERATIONS

For the remainder of 2018, Panariagroup will operate on the basis of a prudent policy targeted at protecting the solid positions of equity and financial equilibrium registered up to now, while confirming medium/long-term strategy, aimed at further increasing turnover, with special attention to reducing net working capital, through careful use of the productive capacity, focus on reducing operating costs and rigorously manage the policy of investments.

On the management front, we will strive to make our organisational structure even more effective, mainly in Italian Business Unit, and to develop the “Contract & Key Account” Division so it can increase its relations with a more relevant target oriented to most prestigious architectural works in the world. In the last few years, the Group has registered significant rates of growth, greatly outstripping the turnover recorded in the pre-crisis years. Insourcing, constant technological upgrades and organisational flexibility, allowed our Group to retain its position as a reference player in the sector.

Despite observing that the recent performance of the sector has not been stellar, we confirm our program of development in a mid-long term perspective and we expect an improvement of the current results already in the second half of 2018.

Declaration of the Financial Reporting Manager

The Financial Reporting Manager, Damiano Quarta, declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

Attachments: Consolidated Balance Sheet and Income Statement.

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CONSOLIDATED BALANCE SHEET

	31/03/2018	31/12/2017	31/03/2017
Inventories	155,288	151,480	144,473
Receivables from customers	84,902	79,142	91,143
Other current assets	12,895	12,044	12,640
CURRENT ASSETS	**253,085**	**242,666**	**248,256**
Payables due to suppliers	(81,595)	(83,198)	(82,239)
Other current liabilities	(29,407)	(28,980)	(28,661)
CURRENT LIABILITIES	**(111,002)**	**(112,178)**	**(110,900)**
NET WORKING CAPITAL	**142,083**	**130,488**	**137,356**
Goodwill	8,139	8,139	8,139
Intangible assets	14,439	14,239	14,052
Property, plant and equipment	123,849	126,005	119,002
Equity Investments and other financial assets	300	300	75
FIXED ASSETS	**146,727**	**148,683**	**141,268**
Receivables due beyond 12 months	529	537	775
Liabilities for employee benefits	(5,539)	(5,531)	(5,793)
Provisions for risks and charges	(4,671)	(4,569)	(4,787)
Deferred tax assets	5,234	4,633	4,745
Other liabilities due beyond 12 months	(3,204)	(3,531)	(2,929)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	**(7,651)**	**(8,461)**	**(7,989)**
NET CAPITAL EMPLOYED	**281,159**	**270,710**	**270,635**

Short-term financial assets	(14,679)	(7,156)	(7,156)
Short-term financial indebtedness	43,153	24,662	41,325
NET-SHORT TERM FINANCIAL INDEBTEDNESS	**28,474**	**17,506**	**34,169**
Medium/long-term financial indebtedness	83,566	81,895	61,103
NET FINANCIAL INDEBTEDNESS	**112,040**	**99,401**	**95,272**
Group equity	169,119	171,309	175,363
EQUITY	**169,119**	**171,309**	**175,363**
TOTAL SOURCES OF FUNDS	**281,159**	**270,710**	**270,635**

CONSOLIDATED INCOME STATEMENT

	31/03/2018	%	31/03/2017	%	change
			RESTATED *		
/ENUES FROM SALES AND SERVICES	**89,984**	**92.65%**	**99,111**	**92.83%**	**(9,127)**
ınge in inventories of finished products	5,167	5.32%	5,307	4.97%	(140)
ıer revenues	1,968	2.03%	2,344	2.20%	(376)
.UE OF PRODUCTION	**97,119**	**100.00%**	**106,762**	**100.00%**	**(9,643)**
v materials	(28,776)	-29.63%	(30,229)	-28.31%	1,453
vices, leases and rentals	(37,934)	-39.06%	(38,901)	-36.44%	967
sonnel costs	(23,817)	-24.52%	(24,674)	-23.11%	857
ıer operating expenses	(749)	-0.77%	(882)	-0.83%	133
ts of production	**(91,276)**	**-93.98%**	**(94,686)**	**-88.69%**	**3,410**
ɔss operating profit	**5,843**	**6.02%**	**12,076**	**11.31%**	**(6,233)**
ortisation and depreciation	(5,049)	-5.20%	(5,113)	-4.79%	64
visions and write-downs	(170)	-0.18%	(370)	-0.35%	200
: operating profit	**624**	**0.64%**	**6,593**	**6.18%**	**(5,969)**
ıncial income and expense	(1,045)	-1.08%	(559)	-0.52%	(486)
-tax profit	**(421)**	**-0.43%**	**6,034**	**5.65%**	**(6,455)**
ɔme taxes	126	0.13%	(2,009)	-1.88%	2,135
ısolidated net profit (loss)	**(295)**	**-0.30%**	**4,025**	**3.77%**	**(4,320)**

* IFRS 15 (Revenues) came into force on 1 January 2018.
The application of this standard involved the reclassification for the Group of “cash discounts” which, previously recognised under “Financial income and expense”, are now booked as a reduction of Revenues.
For comparability reasons, the Income Statement of the first quarter of 2017 was re-stated by applying IFRS 15; the effect on the first quarter of 2017 is a reduction of Euro 166 thousand in revenues and financial expense, with a zero effect on the net result for the period.