INTERIM REPORT ON OPERATIONS AS AT 30 SEPTEMBER 2018

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Panariagroup is an Italian multinational leader in innovation and beauty.

OUR MISSION

We specialise in the manufacturing and sale of ceramic tiles to promote beauty and innovation.

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

• Our focus is on research and innovation to serve the beauty and quality of our products.

• Our goal is to meet our private and professional clients' high expectations of wellness and aesthetics, in both buildings and architecture.

OUR VALUES

TECHNOLOGICAL LEADERSHIP

We constantly invest in research, technologies and state-of-the-art facilities to meet every architectural and interior design need with innovative solutions, capable of becoming the industry benchmark.

AESTHETIC QUALITY AND EXCELLENCE

We tenaciously pursue industrial excellence, from quality raw materials to process efficiency, to obtain products that combine absolute aesthetic value with the highest level of technical performance.

RESPONSIBILITY

We always place people and quality of life at the centre of our attention, with safe, environmentally sustainable products and by operating with the utmost respect for those who work with us.

RELIABILITY

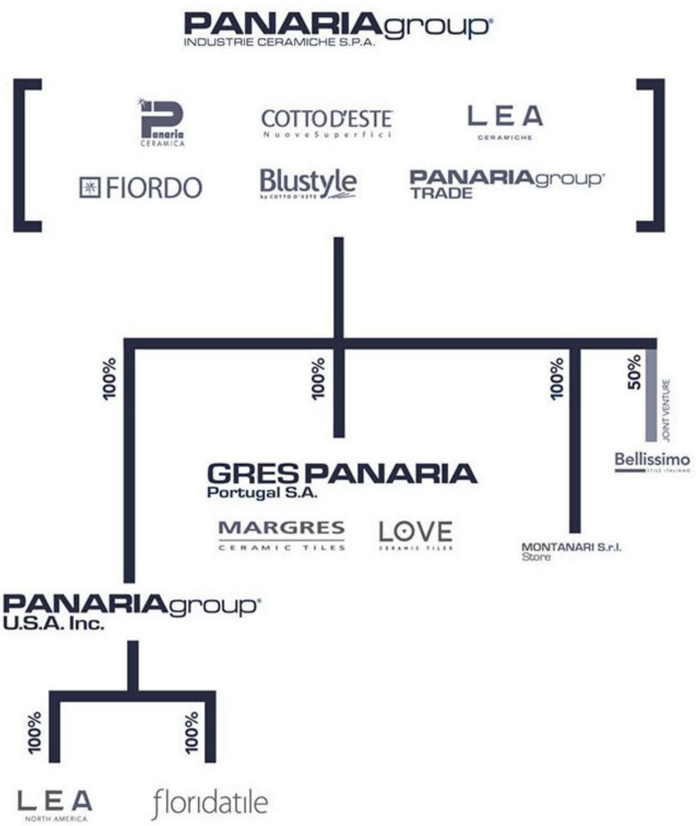
The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

Panariagroup is a leading manufacturer of ceramics tiles for floors and walls. It has over 1,700 employees, 10,000 customers, 6 manufacturing plants (3 in Italy, 2 in Portugal and 1 in the United States) and a presence, through its broad and extensive sales network, in over 130 countries worldwide.

Specialising in the production of porcelain tiles and laminate, the Group is positioned in the premium and luxury market through its nine brand names: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, which are capable of satisfying a diversified customer base that is attentive to the technical and aesthetic quality of its products.

1. STRUCTURE OF THE GROUP

The structure of the Group as at 30 September 2018 is as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A**. based in Finale Emilia, Modena (Italy), share capital of Euro 22,677,645.50
Panariagroup produces and sells ceramic tiles for floor and wall coverings under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. All brands are focused 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 both 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 ceramics in the US through three main channels: its own distribution network composed of 24 stores, independent distributor customers and the large-scale retail trade (Home Centres).

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 Emilio, Modena (Italy), share capital of Euro 48,000, wholly-owned by Panariagroup Industrie Ceramiche S.p.A. This relates to a ceramics retail store.

Furthermore, the Group participates in a Joint Venture Company (JVC) based in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

2. DIRECTORS AND OFFICIALS

Board of Directors

Name	Office
Emilio Mussini	Chairman of the Board and 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

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 30 September 2018 and 30 September 2017 (in thousands of Euro)

	30-Sept-2018	%	30-Sept-2017	%	var.
Revenues from sales and services	**280,793**	**95,15%**	**294,354**	**92,49%**	**(13,561)**
Change in inventories of finished products	6,862	2,33%	15,176	4,77%	(8,314)
Other revenues	7,443	2,52%	8,721	2,74%	(1,278)
Value of Production	**295,098**	**100,00%**	**318,251**	**100,00%**	**(23,153)**
Raw, ancillary and consumable materials	(89,540)	-30,34%	(88,714)	-27,88%	(0,826)
Services, leases and rentals	(117,871)	-39,94%	(120,441)	-37,84%	2,570
Personnel costs	(70,576)	-23,92%	(71,596)	-22,50%	1,020
Changes in inventories of raw materials	(2,212)	-0,75%	(2,705)	-0,85%	0,493
Cost of production	**(280,199)**	**-94,95%**	**(283,456)**	**-89,07%**	**3,257**
Gross operating profit	**14,899**	**5,05%**	**34,795**	**10,93%**	**(19,896)**
D&A expenses	(15,473)	-5,24%	(16,423)	-5,16%	0,950
Provisions and other impairments	(1,571)	-0,53%	(1,181)	-0,37%	(0,390)
Net operating profit	**(2,145)**	**-0,73%**	**17,191**	**5,40%**	**(19,336)**
Financial income and expense	(0,858)	-0,29%	(2,632)	-0,83%	1,774
Pre-tax profit	**(3,003)**	**-1,02%**	**14,559**	**4,57%**	**(17,562)**
Income taxes estimated	0,971	0,33%	(4,455)	-1,40%	5,426
Net profit (loss) for the period	**(2,032)**	**-0,69%**	**10,104**	**3,17%**	**(12,136)**

3.2 Income Statement - Comparison between Third Quarter 2018 and Third Quarter 2017 (in thousands of Euro)

	Q3 2018	%	Q3 2017	%	Var
Revenues from sales and services	**88,560**	**97,13%**	**87,953**	**91,47%**	**0,607**
Change in inventories of finished products	(0,177)	-0,19%	5,160	5,37%	(5,337)
Other revenues	2,798	3,07%	3,038	3,16%	(0,240)
Value of Production	**91,181**	**100,00%**	**96,151**	**100,00%**	**(4,970)**
Raw, ancillary and consumable materials	(28,207)	-30,94%	(27,706)	-28,82%	(0,501)
Services, leases and rentals	(38,183)	-41,88%	(37,841)	-39,36%	(0,342)
Personnel costs	(22,101)	-24,24%	(22,331)	-23,22%	0,230
Changes in inventories of raw materials	(0,599)	-0,66%	(0,998)	-1,04%	0,399
Cost of production	**(89,090)**	**-97,71%**	**(88,876)**	**-92,43%**	**(0,214)**
Gross operating profit	**2,091**	**2,29%**	**7,275**	**7,57%**	**(5,184)**
D&A expenses	(5,348)	-5,87%	(5,808)	-6,04%	0,460
Provisions and other impairments	(0,103)	-0,11%	(0,097)	-0,10%	(0,006)
Net operating profit	**(3,360)**	**-3,68%**	**1,370**	**1,42%**	**(4,730)**
Financial income and expense	(0,296)	-0,32%	(0,535)	-0,56%	0,239
Pre-tax profit	**(3,656)**	**-4,01%**	**0,835**	**0,87%**	**(4,491)**
Income taxes estimated	1,169	1,28%	(0,311)	-0,32%	1,480
Net profit (loss) for the period	**(2,487)**	**-2,73%**	**0,524**	**0,54%**	**(3,011)**

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

	Q1 2018	%	Q2 2018	%	Q3 2018	%	30-Sept-2018	%
Revenues from sales and services	**89,984**	**92,65%**	**102,249**	**95,74%**	**88,560**	**97,13%**	**280,793**	**95,15%**
Change in inventories of finished products	5,167	5,32%	1,872	1,75%	(0,177)	-0,19%	6,862	2,33%
Other revenues	1,968	2,03%	2,677	2,51%	2,798	3,07%	7,443	2,52%
Value of Production	**97,119**	**100,00%**	**106,798**	**100,00%**	**91,181**	**100,00%**	**295,098**	**100,00%**
Raw, ancillary and consumable materials	(28,776)	-29,63%	(32,557)	-30,48%	(28,207)	-30,94%	(89,540)	-30,34%
Services, leases and rentals	(37,934)	-39,06%	(41,754)	-39,10%	(38,183)	-41,88%	(117,871)	-39,94%
Personnel costs	(23,817)	-24,52%	(24,658)	-23,09%	(22,101)	-24,24%	(70,576)	-23,92%
Changes in inventories of raw materials	(0,749)	-0,77%	(0,864)	-0,81%	(0,599)	-0,66%	(2,212)	-0,75%
Cost of production	**(91,276)**	**-93,98%**	**(99,833)**	**-93,48%**	**(89,090)**	**-97,71%**	**(280,199)**	**-94,95%**
Gross operating profit	**5,843**	**6,02%**	**6,965**	**6,52%**	**2,091**	**2,29%**	**14,899**	**5,05%**
D&A expenses	(5,049)	-5,20%	(5,076)	-4,75%	(5,348)	-5,87%	(15,473)	-5,24%
Provisions and other impairments	(0,170)	-0,18%	(1,298)	-1,22%	(0,103)	-0,11%	(1,571)	-0,53%
Net operating profit	**0,624**	**0,64%**	**0,591**	**0,55%**	**(3,360)**	**-3,68%**	**(2,145)**	**-0,73%**
Financial income and expense	(1,045)	-1,08%	0,483	0,45%	(0,296)	-0,32%	(0,858)	-0,29%
Pre-tax profit	**(0,421)**	**-0,43%**	**1,074**	**1,01%**	**(3,656)**	**-4,01%**	**(3,003)**	**-1,02%**
Income taxes estimated	0,126	0,13%	(0,324)	-0,30%	1,169	1,28%	0,971	0,33%
Net profit (loss) for the period	**(0,295)**	**-0,30%**	**0,750**	**0,70%**	**(2,487)**	**-2,73%**	**(2,032)**	**-0,69%**

3.4 Reclassified balance sheet
(in thousands of Euro)

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

	30-Sept-2018	30-June-2018	31-Dec-2017	30-Sept-2017
Inventories	158,519	158,663	151,480	149,408
Accounts Receivable	81,024	91,182	79,142	86,119
Other current assets	14,167	12,733	12,044	11,970
CURRENT ASSETS	**253,710**	**262,578**	**242,666**	**247,497**
Account Payables	(84,928)	(93,910)	(83,198)	(84,163)
Other current liabilities	(32,717)	(31,654)	(28,980)	(31,401)
CURRENT LIABILITIES	**(117,645)**	**(125,564)**	**(112,178)**	**(115,564)**
NET WORKING CAPITAL	**136,065**	**137,014**	**130,488**	**131,933**
Goodwill	8,139	8,139	8,139	8,139
Intangible assets	15,406	15,124	14,239	14,340
Tangible assets	125,195	125,948	126,005	121,342
Equity Investments and other financial assets	0,239	0,260	0,300	0,446
FIXED ASSETS	**148,979**	**149,471**	**148,683**	**144,267**
Receivables due after following year	0,543	0,541	0,537	0,635
Provision for termination benefits	(5,447)	(5,437)	(5,531)	(5,752)
Provision for risk and charge	(4,609)	(4,682)	(4,569)	(5,222)
Deferred tax assets	5,808	4,594	4,633	3,039
Other payables due after the year	(2,025)	(3,223)	(3,531)	(2,623)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(5,730)**	**(8,207)**	**(8,461)**	**(9,923)**
NET CAPITAL EMPLOYED	**279,314**	**278,279**	**270,710**	**266,277**

Short term financial assets	(3,607)	(17,839)	(7,156)	(11,179)
Short term financial debt	28,942	37,438	24,662	40,345
NET SHORT TERM FINANCIAL DEBT	**25,335**	**19,599**	**17,506**	**29,166**
Mid-Long term financial debt	85,516	88,254	81,895	65,445
NET FINANCIAL POSITION	**110,851**	**107,853**	**99,401**	**94,611**
Group Shareholder's Equity	168,463	170,426	171,309	171,666
SHAREHOLDERS' EQUITY	**168,463**	**170,426**	**171,309**	**171,666**
TOTAL SOURCES OF FOUNDS	**279,314**	**278,279**	**270,710**	**266,277**

3.5 Consolidated Net Financial Position (in thousands of Euro)

	30-Sept-2018	30-June-2018	31-Dec-2017	30-Sept-2017
Securities	-	-	-	-
Cash and cash equivalents	(3,607)	(17,839)	(7,156)	(11,179)
Short-term financial assets	**(3,607)**	**(17,839)**	**(7,156)**	**(11,179)**
Due to banks	28,700	37,198	24,429	40,125
Leasing	0,242	0,240	0,233	0,220
Short-term financial indebtedness	**28,942**	**37,438**	**24,662**	**40,345**
Due to banks	85,474	88,166	81,760	65,208
Leasing	0,042	0,089	0,135	0,237
Due to bondholders	-	-	-	-
Long-term financial indebtedness	**85,516**	**88,254**	**81,895**	**65,445**
Net financial indebtedness	**110,851**	**107,853**	**99,401**	**94,611**

4. COMMENTS ON THE FINANCIAL STATEMENTS

4.1 <u>Accounting principles adopted</u>

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 2018, 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 Comments on the operating performance

In short, the results of the period are as follows:

- Consolidated **net revenues from sales** totalled **Euro 280.8 million**, marking a drop of **4.6%** compared to September 2017.
- The **gross operating profit** was **Euro 14.9 million** (Euro 34.8 million as at 30 September 2017).
- The **net operating loss** came to **Euro 2.1 million** (profit of Euro 17.2 million as at 30 September 2017).
- The **consolidated net result** was a loss of **Euro 2.0 million** (profit of Euro 10.1 million as at 30 September 2017).

The third quarter of 2018 posted a negative economic performance, in line with the trends already recorded in the first half.

In terms of revenues, the decrease compared to 2017 was gradually diluted; the gap with respect to the previous year fell from 9.2% recorded at the end of the first quarter, to 7.4% recorded at the end of the second quarter, then reaching the current level of 4.6%.

The overall reduction in revenues in the first nine months, amounting to Euro 13.6 million, was determined by the trend in the EUR/USD exchange rate (Euro 6.3 million) and the actual fall in turnover (Euro 7.3 million).
The US currency, despite strengthening in the third quarter, depreciated by 7.2% in the 9-month period, going from an average Euro/Dollar exchange rate of 1.1140 to an average exchange rate of 1.1942. Net of said effect (based on the same exchange rate), turnover as at 30 September 2018 would have been Euro 287.7 million, marking an actual reduction of 2.5% in sales.

The decrease in the turnover concerned the Italian and the US Business Units, which recorded decreases (net of the currency effect) of 3.2% and 4.2% respectively, while the Portuguese Business Unit saw an increase of 2.6%.
We report that the Italian ceramics sector registered a reduction of 3.2% compared to 30 September 2017, based on the data recently provided by Confindustria Ceramica.

The decrease in Revenues, even if in progressive recover, was followed by a more significant reduction in Value of Production (23.1 million Euros); the lower sales volume was, in fact, accompanied by a lower production volume having as objective the inventory stock control.

Operating profit margins continued to be impacted by both external and internal factors, which have already been outlined in the half-year financial statements, further aggravated by typical season-related aspects in the third quarter, such as the production shut-downs in August and the costs of participation in the “Cersaie” trade show, which is held in September every year.

One of the most important external factors is the macroeconomic and political uncertainty, at both domestic and global level, which definitely contributed to the general slowdown registered by the entire Italian ceramics sector.

Another factor which had a significant impact for our sector, and for the Group's European Business Units, was the huge rise in energy tariffs, a major cost component for manufactured ceramics products, which gave no indication of slowing in the third quarter of 2018.

The severe depreciation of the dollar recorded in the first few months of 2018 was, instead, followed by an inversion of the trend in the last few months, ensuring no further penalising effects aside from those already recorded in the first half. The current USD/EUR exchange rate (around 1.13) suggests a further recovery in the fourth quarter of 2018 (average exchange rate of the 4th quarter of 2017 = 1.18).
The strengthening of the dollar has a positive impact on the Group's revenues, as regards the conversion to Euro of sales made in USD and a positive effect on profit margins, for sales made by the European Business Units in US currency.

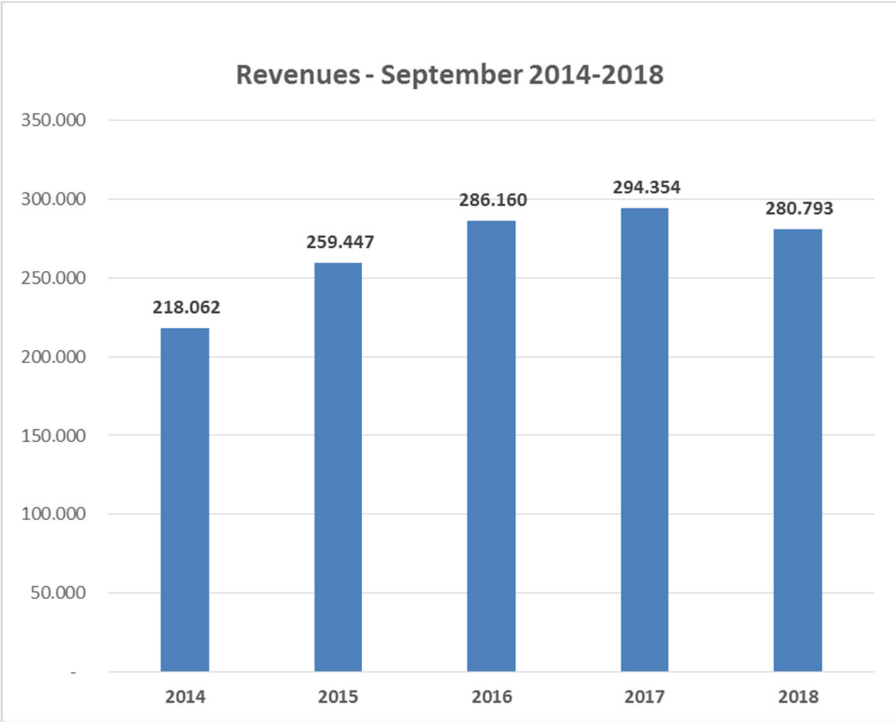
On the domestic front, the company continued to implement the policy of reducing the level of warehouse stocks, with a marked slowdown in production activities and a subsequent increase in the cost of production, due to the higher incidence of the fixed and semi-variable components.
The effects of this policy intensified in the third quarter, in which the natural shut-down in production in August was more extensive than in 2017; this allowed a reduction of 3% in quantities stored compared to June 2018.
Current production planning envisages, for the fourth quarter of 2018, higher production volumes than the same period of the previous year; the expected increase in quantities sold in the last part of the year, confirmed by the trend in turnover registered in October 2018, should allow the company to close the year with the same stock levels, in terms of quantities, present in September 2018.

The policy of monitoring of market shares continued at the Italian Business Unit, with the need to apply prices essentially unchanged from 2017, in respect of a better product mix, in terms of format and better quality of finishes, consequently squeezing the contribution margins.

The 2018 Income Statement also incorporates a series of commercial and organisational investments, targeted at more effective coverage of market opportunities, both in terms of products and distribution channels, which we expect to make a gradual contribution to the recovery in the growth trend.

Consolidated revenues

Net revenues from sales dropped by Euro 13.6 million, down from Euro 294.4 million recorded as at 30 September 2017 (best result in Group's history), to Euro 280.8 million as at 30 September 2018.



Principal markets

The European markets, on the whole, registered turnover essentially in line with the 2017 figure, with a similar performance to the average figures of Italian competitors.
The performance in Portugal continues to be extremely positive, where our company Gres Panaria Portugal, on the strength of its leading position, further boosted its market share.
Growth was consolidated on the markets of Eastern Europe, while some important traditional areas, like France, Germany, Belgium and the Netherlands, recorded a slowdown.
The impact of the European markets on total revenues was **37%.**

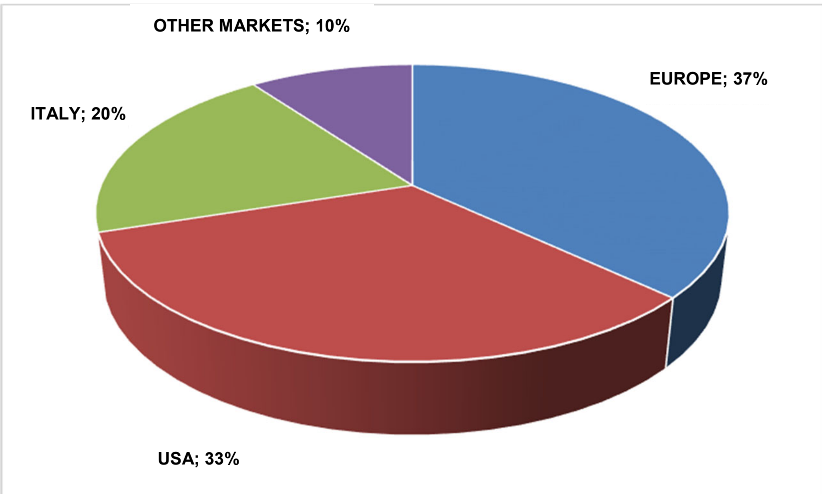
The turnover on the **US market**, expressed in dollars, fell by 4%.
The trends observed in the previous periods were also confirmed, with a decrease in the independent distributors channel, and a slight increase in the directly managed stores channel, while solid improvements were recorded in the "Home Centres" channel.
The slowdown in the independent distributors channel is due to increased competition, especially from Spanish and Chinese exporters; however, a significant change occurred on this front, namely the introduction of excise duty on "Made in China" products, applicable from 24 September 2018 (10%), with a further increase expected on 1 January 2019 (25%). In view of the significant market share these products account for (20% of total US consumption), this presented a huge opportunity for local producers (such as our company Florida Tile) to recover turnover from the main US distributors.

We confirm our confidence in the performance of "Home Centres", and the strengthening of an important partnership, developed in the first few months of 2018, is starting to bear the first signs of fruit and has enabled a partial recovery in the third quarter, with positive expectations also in the immediate future and the next year.
The stores channel once again confirms the best capacity for coverage and control of the market, thanks to the proximity to the end user.
The impact of the US market on total revenues was **33%.**

The **Italian market** bucked the sector trend, with growth of 2%, compared to a decrease of 1.1% for competitors as a whole.
The Group has always been characterised by a widespread presence on the domestic market, which was confirmed in 2018 and has positive expectations for the future.
The impact of the Italian market on total revenues was **20%.**

The **other markets (Asia, Canada, South America, Oceania and Africa**) recorded a reduction of approximately 10%, marking a recovery over the first half (-15%).
Some geographical areas (Middle East and Africa) were hugely influenced by geopolitical tensions, with an immediate impact of the implementation of "large works" (airports, shopping centres, tourist accommodation structures, etc.), which represent the main end market of European ceramics products in these areas.
The Group's performance is reflected in the results of the Italian sector, which highlights significant decreases in these areas.
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 **43%** of total turnover.



The major presence on international markets, both through direct investee companies, and through an extensive commercial organisation, remains one of the features that distinguish Panariagroup from the majority of its competitors.

Performance of the Group Divisions

The **Italian Business Unit** registered an overall decrease of 3% in turnover, in line with the average performance of the sector.
The Panaria, Lea and Cotto d'Este Divisions recorded a modest drop, while Panariagroup Trade was adversely impacted by the difficult macroeconomic context in the areas in which it operates, especially in the Middle East.
We expect a partial recovery in turnover in the final quarter.

The **Portuguese Business Unit** recorded overall growth of 2.6%, adversely impacted by the drop in sales on the "third party account" channel, while the traditional network recorded a positive performance.
Leadership on the domestic market remains a strength, which is guaranteeing, year after year, a constant increase in the market share.

The **US Business Unit** recorded a reduction in turnover in dollars of around 4%.
However, the negative phenomena that characterised the first half are partially abating; in particular, the first real fruits of the work performed on the "Home Centres" channel are in evidence, where Florida Tile products are finding more sale spaces than in the past, and recent developments in terms of excise duty on imported products bearing the "made in China" label suggest a recovery, in the next few months, in the independent channel, the one most in difficulty in the last few years, owing to a more aggressive approach from these types of competitors.

Operating results

Gross operating profit came to **Euro 14.9 million**, representing 5.1% of the Value of production (Euro 34.8 million as at 30 September 2017, equal to 10.9% of the Value of production).

All Group business units saw a decrease in profit margins, albeit for different reasons.

In order to maintain market shares, the Italian Business Unit followed a more aggressive commercial policy in term of prices, with a temporary effect of lower margins, aimed to push the launch of the more recent collections, for a quicker introduction in the market.
Further, the need to keep the level of warehouse stocks under control determined lower use of plants than the previous year, with a natural increase in production costs, augmented by a significant increase in energy tariffs. The shut-down of the facilities in August contributed further to this phenomenon.
The Income Statement was also impacted by some organisational and commercial investments, whose positive effects will materialise in the medium-term.

The Portuguese Business Unit continued to record high profit margins, albeit with a decrease compared to the excellent performances in 2017.
The increase in gas tariffs had a considerable impact, but the start-up of the new Aveiro production line and the adjustment of the organisational structure into line with the plan of future growth also contributed to the drop in profit margins.

The biggest cause of the decrease in the profitability of the US Business Unit was the reduction in volumes produced which, although on the one hand made it possible to stabilise inventory levels, on the other, increased the incidence of fixed costs.

The strengthening of the structure in the previous two-year period, targeted at supporting the development programmes, determined, in the presence of a drop in turnover, an increased incidence of these costs; however, it should be noted that important initiatives have already been implemented to cut and optimise these expenses, the effects of which will be evident in the fourth quarter of 2018 and in the next year.

The **net operating loss** came to Euro 2.1 million (profit of Euro 17.2 million as at 30 September 2017).

The incidence of amortisation/depreciation and provisions on the Value of production is essentially in line with the previous year.

The balance of financial income and expenses improved by Euro 1.8 million compared to 30 September 2017. The positive change is due almost exclusively to "exchange rate management", which was a negative Euro 1.3 million in September 2017, while it was a positive Euro 0.4 million in September 2018.
We believe it is important to underline that the incidence of financial expenses of the Value of production (equal to 0.4%, netted by "exchange rate component"), was markedly reduced; this was determined by the current market conditions, characterised by low interest rates, but also by careful and prudent treasury management.

The **consolidated net result** was a loss of Euro 2.0 million (profit of Euro 10.1 million as at 30 September 2017).

Analysis of the balance sheet
Summary of the Balance Sheet
(in thousands of Euro)

	30/09/2018	30/06/2018	31/12/2017	30/09/2017
Net working capital	**136,065**	**137,014**	**130,488**	**131,933**
Non-current assets	**148,979**	**149,471**	**148,683**	**144,267**
Assets / Liabilities after 12 months	**(5,730)**	**(8,207)**	**(8,461)**	**(9,923)**
NET CAPITAL EMPLOYED	**279,314**	**278,279**	**270,710**	**266,277**
Net financial indebtedness	**110,851**	**107,853**	**99,401**	**94,611**
Equity	**168,463**	**170,426**	**171,309**	**171,666**
TOTAL SOURCES OF FUNDS	**279,314**	**278,279**	**270,710**	**266,277**

Net working capital

The level of Net working capital rose by 3.1% compared to the same period in the previous year; this trend, together with the decrease of 4.6% in turnover, determined an increase of 36.2% in the NWC/Revenues ratio.

With reference to inventories, we point out that the quantities stored fell by roughly 3% compared to 30 June 2018; this effect is not visible in the balance sheet, mainly due to the richer product mix (large formats, quality processing and finishes) and strengthening of the US dollar, which involved a higher value, in Euros, of the stock of the US Business Unit.

An improvement was recorded in the "average days of collection" (DSO) ratio, confirming the trend consolidated over time; this is the result of a rigorous customer assignment and selection process, which has also enabled the company, over the last few years, to reduce the incidence of past due loans and to minimise losses on loans and receivables.

More generally speaking, we confirm the policy that has guided the Group in the last few years, i.e. safeguarding of capital equilibrium, and we will work more intensely on reducing Net working capital requirements, with reference to all its components, inventories, current receivables and current liabilities.

Non-current assets

Non-current assets increased by Euro 0.3 million since the beginning of the year, due to the following:

- Investments in the period totalling Euro 14.3 million, of which Euro 7.2 million realised in Italy, Euro 5.4 million in Portugal and Euro 1.7 million in the United States.
- Amortisation and depreciation for the period of Euro 15.5 million.
- Higher value of fixed assets expressed in euros of the US sub-consolidation, due to the appreciation of the US currency with respect to the end of 2017, amounting to Euro 1.5 million.

The huge efforts made in the last three years, to increase the production capacity in all three Business Units, allow us, in this phase, to limit investments to natural levels, allocating them to the achievement of greater efficiency and productivity, expansion of the product range, improvement in quality and the technological upgrading of existing plants.

In particular, the most significant technical investments in the period concerned the installation of two selection lines and one glazing line, adapted for large formats, at the Italian facilities, and improvement works in the press and glazing department at the Portuguese facilities, also in this case, to be able to create innovative product types and large formats.

Net Financial Position

Financial cash flow
(thousands euro)

	30-Sept-18	30-June18	31-Dec-17	30-Sept-17
Net financial position (debt) - beginning	**(99,4)**	**(99,4)**	**(83,7)**	**(83,7)**
Net Result for the period	(2,0)	0,5	11,4	7,1
D & A	15,6	10,1	22,1	14,0
Net Variation Provisions	(0,6)	0,9	0,1	3,9
Non monetary changes	0,4	(0,1)	0,1	0,1
Internal operating Cash flow	**13,4**	**11,4**	**33,7**	**25,1**
Change in net working capital and other assets and liabilities	(6,5)	(6,7)	(10,9)	(13,5)
Dividends	(3,1)	(3,1)	(3,1)	(3,1)
Net Investments	(14,4)	(9,8)	-	-
Changes in the Net Financial Position due to the exchange rate effect	(0,8)	(0,2)	(0,8)	1,0
Net financial position (debt) - final	**(110,8)**	**(107,8)**	**(99,4)**	**(94,6)**

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.

The Net Financial Position worsened by Euro 3 million compared to the previous quarter.
In general, the trend in financial debt in 2018 felt the impacts of the reduction in the operating profit margin, which was not accompanied, for now, by a reduction in Net working capital.
The improvement in the Net Financial Position is one of the main parameters management is targeted at; our objective is to bring the NFP back below Euro 100 million by the end of the year, thanks to the activities in progress to optimise Net working capital and the lower level of investments made.

5. BUSINESS OUTLOOK

The year 2018 is proving to be a difficult one, in which the convergence of negative elements, both internal and external, has caused a standstill in the steady process of growth in revenues and economic results which had characterised our Group in the previous three-year period.

Some of these elements have already been alleviated or, according to our forecasts, will be dampened over the next few months, favouring an improvement in economic results.

The competitive pressure applied in the United States by Chinese and Spanish exporters will, in our opinion, taper off; as regards the former, thanks to the introduction of significant excise duty on imports and, for the latter, we believe that the aggressive policy on prices applied, in order to recover the market shares lost in the past, is going to be absorbed.
This represents a very important opportunity for local producers in the United States, such as our company Florida Tile, that have the possibility of offering more competitive prices, in light of the application of excise duty and fully justified by a logistic service having an higher value.

The negative trend in the dollar against the euro, which had characterised the first half of 2018, already recorded a clear reversal, with the current exchange rate sitting at USD/EUR 1.13, with a positive impact expected on the revenues and profit margins of the Group for 2019.

By contrast, we believe that we will have to contend with the uncertainty of the macroeconomic scenario, with an increase in energy tariffs and increased competitive pressure on all international markets.

In order to cushion the higher cost of gas and electricity, that will impact also our competitors, we have decided an increase in the new sale price lists, starting from 1st January 2019.

Competition has certainly grown on the international markets, but we believe that the decision to maintain the coverage of the market shares in 2018, may be advantageous in terms of the recovery of volumes, through a coordinated multi-brand action and, therefore, more intense use of the production capacity.

In addition to this strategy to protect the positions acquired, some time ago, the Group undertook a process targeted at enhancing the sales offering, more diversified and recognisable for the individual Group brands, and at expanding the coverage of the distribution channels, through specialised structures dedicated to the specific needs of the different segments.

As regards internal efficiency, especially on the production and service side, we will work with greater determination to cut costs and improve processes and, in that sense, the 2019 Budget will incorporate this objective in the main guidelines.

The marked internationalisation of the organisational structure and of commercial distribution, the cutting-edge technology, the know-how of our personnel and the credibility built up over the years, are all strong values we can rely on to kick-start our growth process.

6. SIGNIFICANT EVENTS AFTER THE CLOSE OF THE QUARTER

No significant events are to be reported.