# INTERIM REPORT ON OPERATIONS AS AT 31 MARCH 2019

Panariagroup Industrie Ceramiche Spa

Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia (MO)
Tax Code, VAT no. 01865640369 www.panariagroup.it

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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**

<u>TECHNOLOGICAL LEADERSHIP</u>

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.

<u>AESTHETIC QUALITY AND EXCELLENCE</u>

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.

<u>RESPONSIBILITY</u>

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.

<u>RELIABILITY</u>

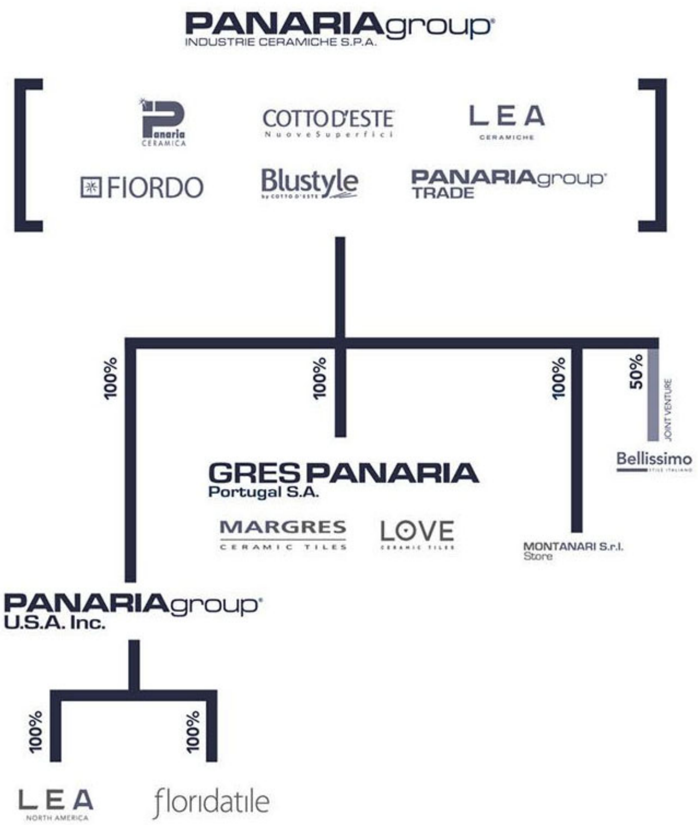
The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

*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.*

## STRUCTURE OF THE GROUP

The structure of the Group as at 31st March 2019 is as follows:




The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, with registered office in Finale Emilia, Modena (Italy), with 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**, with registered office 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.,** with registered office 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.**, with registered office 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 three main channels: its own distribution network (24 stores), independent distributors and large distribution (Home Centers).

**Lea North America LLC.**, with registered office 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.**, with registered office in Finale Emilia (Italy), share capital of Euro 48,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

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.

## DIRECTORS AND OFFICERS

**Board of Directors**

| Name | Office |
|---|---|
| Emilio Mussini | Chairman of the Board and Managing Director |
| Paolo Mussini | Deputy Chairman and Managing Director |
| Andrea Mussini | Deputy Chairman |
| Giuliano Pini | Managing Director |
| Giuliano Mussini | Director |
| Silvia Mussini | Director |
| Daniele Prodi | Director |
| Francesca Bazoli | Independent Director |
| Sonia Bonfiglioli | Independent Director |
| Tiziana Ferrari | Independent Director |

**Board of Statutory Auditors**

| Name | Office |
|---|---|
| Sergio Marchese | Chairman of the Board of Statutory Auditors |
| Piergiovanni Ascari | Standing Auditor |
| Francesca Muserra | Standing Auditor |

**Independent Auditors**
EY S.p.A.

1. **ECONOMIC, EQUITY AND FINANCIAL POSITION**

## 3.1 Income Statement – Comparison between 31 March 2019 and 31 March 2018
(in thousands of Euro)

| | 31 mar 2019 | % | 31 mar 2018 (*) | % | var. |
|---|---|---|---|---|---|
| **Revenues from sales and services** | **96.357** | **94,43%** | **89.984** | **92,65%** | **6.373** |
| Change in inventories of finished products | 3.249 | 3,18% | 5.167 | 5,32% | (1.918) |
| Other revenues | 2.435 | 2,39% | 1.968 | 2,03% | 467 |
| **Value of Production** | **102.041** | **100,00%** | **97.119** | **100,00%** | **4.922** |
| Raw, ancillary and consumable materials | (31.172) | -30,55% | (28.776) | -29,63% | (2.396) |
| Services, leases and rentals | (37.885) | -37,13% | (34.528) | -35,55% | (3.357) |
| Personnel costs | (24.757) | -24,26% | (23.817) | -24,52% | (940) |
| Other operating expenses | (757) | -0,74% | (749) | -0,77% | (8) |
| **Cost of production** | **(94.571)** | **-92,68%** | **(87.870)** | **-90,48%** | **(6.701)** |
| **Gross operating profit** | **7.470** | **7,32%** | **9.249** | **9,52%** | **(1.779)** |
| D&A expenses | (5.154) | -5,05% | (5.049) | -5,20% | (105) |
| Right of Use depreciation | (2.786) | -2,73% | (2.889) | -2,97% | 103 |
| Allowance and Provisions | (234) | -0,23% | (170) | -0,18% | (64) |
| **Net operating profit** | **(704)** | **-0,69%** | **1.141** | **1,17%** | **(1.845)** |
| Financial income and expense | (815) | -0,80% | (1.743) | -1,79% | 928 |
| **Pre-tax profit** | **(1.519)** | **-1,49%** | **(602)** | **-0,62%** | **(917)** |
| Income taxes estimated | 525 | 0,51% | 180 | 0,19% | 345 |
| **Net profit (loss) for the period** | **(994)** | **-0,97%** | **(422)** | **-0,43%** | **(572)** |

(*) Effective as of 1 January 209, IFRS 16 (“Leases”) came into force.
Panariagroup has adopted the “Full retrospective” approach, so the previous year's figures have also been restated, with retroactive application of the new accounting standard.
For further information, reference should be made to the section “Accounting standards and criteria adopted”.

PANARIAgroup®

## 3.4 Reclassified Balance Sheet
(in thousands of Euro)

| | 31 Mar 2019 | 31 Dec 2018 (*) | 31 Mar 2018 (*) |
|---|---|---|---|
| Inventories | 163.823 | 159.948 | 155.288 |
| Accounts Receivable | 75.261 | 64.954 | 84.902 |
| Other current assets | 16.623 | 13.819 | 12.895 |
| **CURRENT ASSETS** | **255.707** | **238.721** | **253.085** |
| Account Payables | (90.096) | (88.342) | (81.595) |
| Other current liabilities | (29.562) | (28.450) | (29.885) |
| **CURRENT LIABILITIES** | **(119.658)** | **(116.792)** | **(111.480)** |
| **NET WORKING CAPITAL** | **136.049** | **121.929** | **141.605** |
| Goodwill | 8.139 | 8.139 | 8.139 |
| Intangible assets | 16.025 | 15.553 | 14.439 |
| Tangible assets | 123.169 | 124.840 | 123.849 |
| Right of Use of Assets | 115.411 | 118.196 | 126.863 |
| Equity Investments and other financial assets | 84 | 161 | 300 |
| **FIXED ASSETS** | **262.828** | **266.889** | **273.590** |
| Receivables due after following year | 542 | 564 | 529 |
| Provision for termination benefits | (5.024) | (5.067) | (5.540) |
| Provision for risk and charge | (4.261) | (4.506) | (4.671) |
| Deffered tax assets | 7.758 | 7.031 | 5.288 |
| Other payables due after the year | (2.777) | (3.139) | (3.204) |
| **ASSET AND LIABILITIES DUE AFTER THE YEAR** | **(3.762)** | **(5.117)** | **(7.598)** |
| **NET CAPITAL EMPLOYED** | **395.115** | **383.701** | **407.597** |

| | | | |
|---|---|---|---|
| Short term financial assets | (8.187) | (18.092) | (14.679) |
| Short term financial debt | 39.480 | 35.461 | 43.153 |
| Mid-Long term financial debt | 81.216 | 81.102 | 83.566 |
| **NET FINANCIAL POSITION BEFORE IFRS 16 APPLICATION** | **112.509** | **98.471** | **112.040** |
| Lease Obligations IFRS 16 | 121.611 | 124.333 | 132.224 |
| **NET FINANCIAL POSITION AFTER IFRS 16 APPLICATION** | **234.120** | **222.804** | **244.264** |
| Net Income (Loss) | (994) | (4.604) | (422) |
| Group Shareholders' Equity | 161.989 | 165.501 | 163.755 |
| **SHAREHOLDERS' EQUITY** | **160.995** | **160.897** | **163.333** |
| **TOTAL SOURCES OF FOUNDS** | **395.115** | **383.701** | **407.597** |

(*) Effective as of 1 January 209, IFRS 16 (“Leases”) came into force.
Panariagroup has adopted the “Full retrospective” approach, so the previous year's figures have also been restated, with retroactive application of the new accounting standard.
For further information, reference should be made to the section “Accounting standards and criteria adopted”.

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

| | 31/03/2019 | 31/12/2018 (*) | 31/03/2018 (*) |
|---|---|---|---|
| Securities | - | | - |
| Cash and cash equivalents | (8.187) | (16.910) | (14.679) |
| **Attività finanziarie a breve termine** | **(8.187)** | **(16.910)** | **(14.679)** |
| Due to banks | 39.401 | 34.138 | 42.926 |
| Financial Leasing | 79 | 141 | 227 |
| **Short Term Financial Debt** | **39.480** | **34.279** | **43.153** |
| Dute to Banks | 81.216 | 81.102 | 83.493 |
| Financial Leasing | - | - | 73 |
| Due to bondholders | - | - | - |
| **Medium/long-term financial indebtedness** | **81.216** | **81.102** | **83.566** |
| **Net financial indebtedness BEFORE IFRS 16** | **112.509** | **98.471** | **112.040** |
| Operating Leasing liabilities | 121.611 | 124.333 | 132.224 |
| **Net financial indebtedness AFTER IFRS 16** | **234.120** | **222.804** | **244.264** |

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Panariagroup has adopted the “Full retrospective” approach, so the previous year's figures have also been restated, with retroactive application of the new accounting standard.
For further information, reference should be made to the section “Accounting standards and criteria adopted”.

# 2. NOTES TO THE FINANCIAL STATEMENTS

## 4.1 Accounting policies and criteria adopted

This interim report on operations is drafted in accordance with art. 154-ter of Legislative Decree 58/1998 (Consolidated Law on Finance), of the Issuers' Regulation issued by Consob.

As regards the provisions on the conditions applied to the listing of parent companies, incorporated companies or companies regulated under the laws of Countries outside of the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- As at 31 March 2019, 3 of the companies controlled by Panariagroup come 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 new rules (art. 36 of Market Regulations issued by Consob).

Panariagroup adopted the International Accounting Standards ("IFRS") issued by the International Accounting Standards Board.

With effect from 1 January 2019, the new accounting standard IFRS 16 "Leases" came into force, which defines a single model for the recognition of leasing contracts, eliminating the distinction between operating and financial leases; Panariagroup opted for a "full retrospective" application from 01/01/2018.

For the sake of clarity, we point out that the term "leasing" should be understood in a broad sense, and includes the contracts commonly referred to in Italy as hiring, lease and rental.

The accounting for leasing contracts pursuant to IFRS 16 makes provision, in summary:

- in the balance sheet, the recognition of an asset, representing the right to use the asset and a liability, representing the obligation to make the payments envisaged by the contract. As allowed by the standard, these two components are recorded in separate items of the statement of financial position;

- in the income statement, the reversal of rents, recorded under operating costs with the application of the previous accounting standard, and the recognition of amortisation of the asset for right of use and interest expense accrued on the liability for leasing.

As allowed by IFRS 16, this method of accounting has not been adopted for short-term leases and leases of modest value.

The effects of applying the new standard are set out in the appendix.

This Interim Report was not audited.

The amounts are indicated and commented on in thousands of Euro, except where indicated otherwise.

## 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
- **Panariagroup USA Inc.** wholly-owned
- **Florida Tile Inc.** wholly-owned
- **Lea North America LLC.** wholly-owned
- **Montanari Ceramiche S.r.l.** wholly-owned

All subsidiaries are consolidated on a line-by-line basis.

The Group also participates in a Joint Venture Company (JVC) in India called Asian Panaria, in which it owns 50% and is measured using the equity method.

The scope of consolidation remains unchanged with respect to 31 December 2018.

## 4.3 Comments on the operating performance

***Summary of Income Statement - Figures as at 31 March 2019***
*(in thousands of Euro)*

| | 31/03/2019 | % | 31/03/2018 (*) | % | var. € |
|---|---|---|---|---|---|
| **Revenues from sales and services** | **96.357** | **94,43%** | **89.984** | **92,65%** | **6.373** |
| **Value of Production** | **102.041** | **100,00%** | **97.119** | **100,00%** | **4.922** |
| **Gross operating profit** | **7.470** | **7,32%** | **9.249** | **9,52%** | **(1.779)** |
| **Net operating profit** | **(704)** | **-0,69%** | **1.141** | **1,17%** | **(1.845)** |
| **Net profit (loss) for the period** | **(994)** | **-0,97%** | **(422)** | **-0,43%** | **(572)** |

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Panariagroup has adopted the "Full retrospective" approach, so the previous year's figures have also been restated, with retroactive application of the new accounting standard.
For further information, reference should be made to the section "Accounting standards and criteria adopted".

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

- **Consolidated net revenues from sales** totalled **Euro 96.4 million**, marking growth of **7.2%** compared to March 2018.
- The **Gross Operating Profit** was **Euro 7.5 million** (Euro 9.2 million as at 31 March 2018).
- The **Net Operating Loss** came to **Euro 0.7 million** (profit of Euro 1.1 million as at 31 March 2018).
- The **Consolidated net loss** was **Euro 1.0 million** (loss of Euro 0.4 million as at 31 March 2018).

Revenues in the first quarter of 2019 were positive, with an increase of 7.2%, including a favourable USD/EUR exchange rate; at constant rate, the increase would be 4.3%.

Even net of the dollar effect, sales growth was significant, taking into account the general performance of Italian competitors who, according to data released by Confindustria Ceramica, achieved an increase of 1.4% in the same period.

The European Business Units achieved a significant improvement in sales (+5.0% for the Italian Business Unit and +9.7% for the Portuguese Business Unit), while the US Business Unit achieved a lower growth of 0.6% in US dollars.

The growth in revenues affected, albeit differently, all the main markets covered by the Group; in particular, we point out the excellent performance of the Asian area and the significant increase in the European area.

The higher turnover has not been accompanied, at the moment, by an equally positive trend in margins; in fact, the first quarter of 2019 is still affected by most of the negative effects that had heavily affected the year 2018.

The commercial initiatives implemented in 2018, which had led to a reduction of contribution margins, continued to have an impact also on deliveries in the first two months of 2019. Starting from the next quarter, we expect an increase in sales margins, thanks to the full application of the new commercial policies for 2019.

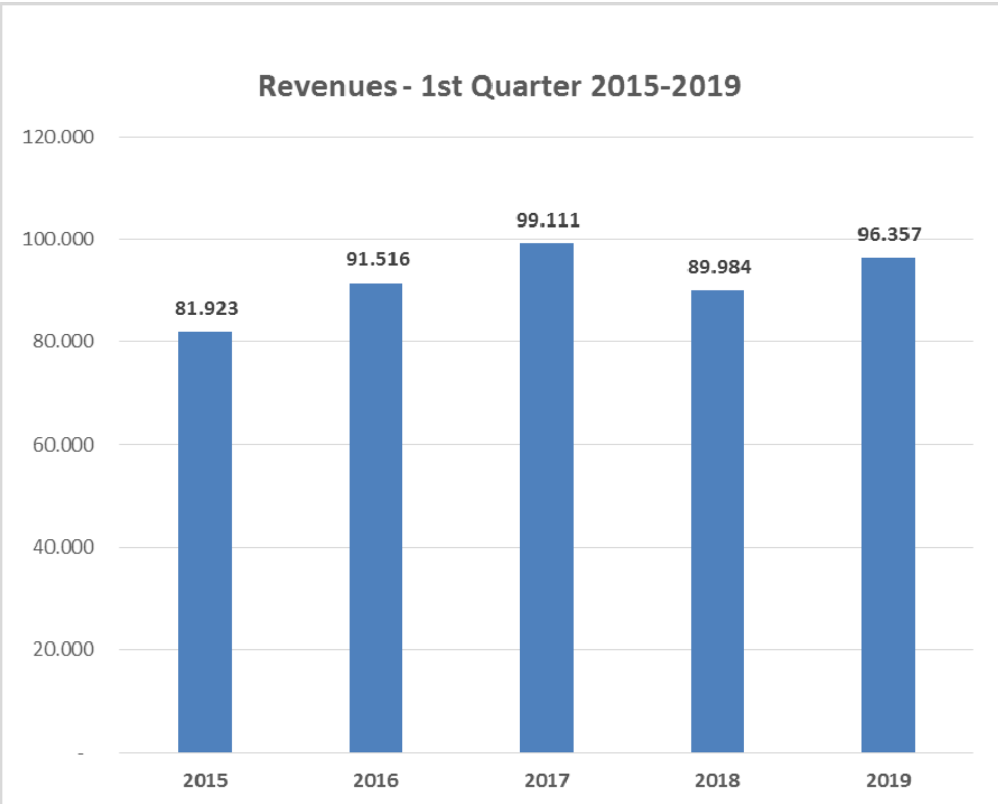
In addition, a particularly significant effect was the further increase in gas tariffs in the European Business Units, with an average growth of more than 20% in the cost per cubic metre, compared to the already high levels of the 2018 quarter.

Finally, as part of the objectives to reduce inventories, production activities in the USA continued at a slower pace, with a natural increase in average production costs due to the higher incidence of fixed and semi-fixed costs.

## Consolidated Revenues

**Net revenues from sales** rose by Euro 6.4 million, up from Euro 90.0 million recorded as at 31 March 2018, to Euro 96.4 million as at 31 March 2019.

After the drop in 2018, the development of turnover, which had characterised the previous three years, has restarted:



## Principal markets

On **European markets**, growth of over 5% was achieved, a positive result, if we take as a reference the figure of Italian operators, equal to +2.1%.
Once again, the positive trend on the Portuguese market is confirmed, with a "double-digit" growth, which confirms Gres Panaria Portugal's ability to compete successfully on the domestic market.
The Group's positive results in Germany, Austria, Switzerland, Great Britain and Spain are also worthy of note, while there was a setback in Russia, where the entire Italian ceramic sector reduced its turnover.
The impact of the European markets on total revenues was **37%.**

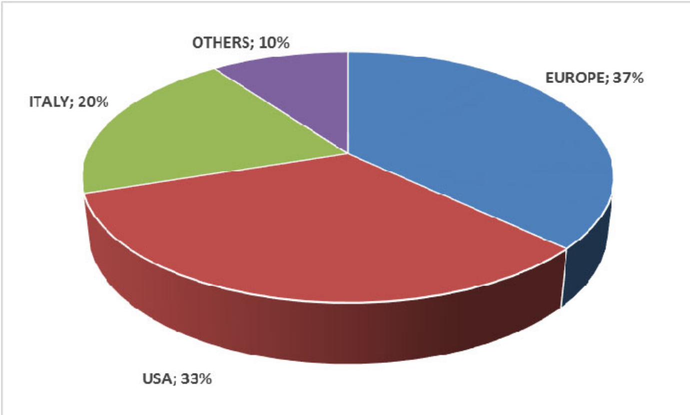
Turnover on the **US market** increased by 2.2% in US dollars, which, due to the appreciation of the US currency against the Euro (+7.6%), led to a positive change in our currency of around 10%.
The outlook for the sector in the USA remains positive, as confirmed by the trend in building permits, which generally anticipates the trend in consumption by a few months.
The vitality of the market was also confirmed by the turnout at the recent Coverings fair, held in Florida in April, which saw an increase in visitors.
The impact of the US market on total revenues was **33%.**

In an **Italian market** that is still not very dynamic and in which the overall turnover of the ceramic sector was substantially in line with the first quarter of 2018, the Group recorded a positive change of 1.8%.
In line with the past few years, the Group has been able to achieve results higher than the general market trend, thanks to its market presence, characterised by a consolidated customer base that is widely distributed throughout the territory.
The impact of the Italian market on total revenues was **20%.**

The **other markets (Asia, Canada, South America, Oceania and Africa**) recorded an excellent growth of 14.5%, well above the average figure for the sector (+3%), driven above all by the positive start on Asian markets, both in the Middle East and in the Far East.
Also in the other main areas (Oceania and Africa), sales were up compared to the first quarter of 2018.
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.

Graphically, the breakdown of turnover by macro-area is as follows.




The balanced distribution of sales in the various geographical areas of the world, and the presence with its own production, logistics and distribution structures in several hubs, are undoubtedly a major strength in the Group's competitive strategy.

## Performance of the Group Divisions

The **Italian Business Unit** recorded a solid growth of 5%, higher than the sector figure which, in the first quarter of 2019, increased total sales by 1.4%.
In addition to the excellent results achieved in Asia, it should be noted that in all the main geographical macro-areas, the change in turnover was positive.
The Divisions that have achieved the best results have been Panariagroup Trade, a key player in the significant development in the Asian areas and Panariagroup Private Label.
Overall, the other Divisions achieved results that are substantially in line with the first quarter of 2018, but we are confident of increasing turnover in the coming months.

The **Portuguese Business Unit** increased sales by 9.7%, confirming a continuity of results that has been going on for several years now.
The domestic market was the main driving force behind this performance; the overall revenue trend on other European markets was positive.
We are confident that we can continue along this path of growth, which is based on the solid foundations that have been built thanks to the work of recent years, such as market positioning, product quality and industrial competitiveness.

The **US Business Unit** achieved a slight growth in US dollars, due to mixed trends in the various distribution channels.
For the “Home Centres”, a positive cycle has begun which, with the consolidation of commercial relations under way, should allow a positive sales trend to be maintained in the coming months.
For the other channels, an extremely strong competitive pressure continues to exist, both from local US producers and exporters, in particular from Spain and China.
With reference to the latter, which represent an important part of the market, it should be noted, in addition to the announced tightening of duties, that anti-dumping procedures have been activated to combat mechanisms of unfair competition.
In addition to the benefit that these external factors could bring, commercial initiatives are under way to improve sales performance.

**Operating results**

**Gross operating profit** came to **Euro 7.5 million**, representing 7.3% of the Value of Production (Euro 9.2 million as at 31 March 2018, equal to 9.5% of the Value of Production).

The main reasons of the margin decrease, are, by Business Unit, the following.

The Italian Business Unit, while benefiting from the positive contribution of a higher turnover, was characterised by a queue of the commercial conditions applied in 2018, that, together with a further increase in gas prices, brought to a decrease in margins.

Sales in the period included a large part of customer orders dating back to the last few months of 2018 and therefore did not benefit from the positive effects of the new commercial policies implemented in 2019 for the recovery of margins, including an increase of the price lists.

The most important negative impact also resulted from the new gas tariffs, which, increased by 20% compared to the values of the first quarter of 2018.
On the basis of the contracts already stipulated for the next few months, we believe that in the coming quarters the gap with last year's tariffs should progressively narrow.

The Portuguese Business Unit was able to maintain profitability in absolute terms in line with the first quarter of 2018.

In this case, too, the increase in the Value of Production made a positive contribution to the economic result: however, the increase in energy tariffs (gas, electricity) weighed heavily on production costs, with an overall increase of 20%.

The US Business Unit suffered a decline in profitability, mainly as a result of two factors.

Firstly, with the objective of reducing inventories (which decreased by 8% in the first three months of 2019), production continued at a slower pace than its potential, with a natural increase in fixed and semi-variable production costs.

Secondly, the slight increase in turnover was achieved by a different distribution of turnover among the distribution channels, with a higher incidence of sales characterised by lower margins.

The **net operating loss** came to Euro 0.7 million (profit of Euro 1.1 million as at 31 March 2018).

Depreciation and amortisation, including that deriving from Rights of use and provisions, are in line with 2018, with a total incidence of 8.0% on Value of Production.

“Financial charges” went from Euro 1.7 million in the first quarter of 2018 to Euro 0.8 million in the first quarter of 2019, an improvement of Euro 0.9 million, entirely attributable to the result of foreign exchange management.
This item also includes the financial component of “leasing” contracts, in application of IFRS 16, which amounted to Euro 0.6 million.

The **Consolidated Net result** was a loss of Euro 1.0 million (loss of Euro 0.4 million as at 31 March 2018).

## Analysis of the balance sheet and financial position

*Summary of the Balance Sheet*
*(in thousands of Euro)*

| | 31/3/2019 | 31/12/2018 (*) | 31/03/2018 (*) |
|---|---|---|---|
| NET WORKING CAPITAL | 136.049 | 121.929 | 141.605 |
| FIXED ASSETS | 147.417 | 148.693 | 146.727 |
| RIGHT OF USE LEASING | 115.411 | 118.196 | 126.863 |
| ASSET AND LIABILITIES DUE AFTER THE YEA | (3.762) | (5.117) | (7.598) |
| NET CAPITAL EMPLOYED | 395.115 | 383.701 | 407.597 |
| NET FINANCIAL POSITION BEFORE IFRS 16 AI | 112.509 | 98.471 | 112.040 |
| LEASE OBLIGATION IFRS 16 | 121.611 | 124.333 | 132.224 |
| SHAREHOLDERS' EQUITY | 160.995 | 160.897 | 163.333 |
| TOTAL SOURCES OF FOUNDS | 395.115 | 383.701 | 407.597 |

(*) Effective as of 1 January 209, IFRS 16 ("Leases") came into force.
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**Net Working Capital**

The level of Net Working Capital recorded a decrease of 4% compared to the same period of the previous year; this figure, combined with the growth in turnover, determined an improvement in the NWC/Revenues ratio from 37.9% to 36.1% (quarter on quarter).

Inventory stocks have increased by 2% in value since the beginning of the year, with production planning policies structured differently among the Business Units.
The significant reduction in stocks in the American BU, obtained thanks to non-maximum use of production capacity, was offset by the increase in stocks in the Italian BU, which was necessary to respond to the change in the product mix requested by customers, more oriented towards products with higher unit costs.

The management of trade receivables continues with good results, both in terms of containing losses and reducing past due amounts, thanks to the consolidated procedures for selection, lending, customer monitoring and a reduced concentration of credit risk.

The increase in the caption "Other current assets" is mainly due to the higher VAT credit, which should quickly return back to the usual levels.

**Non-current assets**

Non-current assets decreased by Euro 1.3 million since the beginning of the year, due to the following:

- Investments in the period totalling Euro 3.3 million, of which Euro 1.9 million realised in Italy, Euro 0.7 million in Portugal and Euro 0.7 million in the United States.
- Amortisation and depreciation for the period of Euro 5.2 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 2018, amounting to Euro 0.6 million.

In view of the current industrial structure, already aligned with the best technological standards in the sector and already sized with respect to the commercial development programmes, the Group has estimated, for 2019, a lower investment expenditure than in previous years, with the quarterly figure fully in line with this objective.

**Rights of Use for Leased Assets**

This item was included in application of IFRS 16 and represents the value of the right to use the asset underlying the leasing contracts for the duration of the contract.
It is important to underline that over 95% of the value refers to real estate leases that mainly concern the instrumental buildings (factories, warehouses and offices) used by Panariagroup Industrie Ceramiche S.p.A. and those used by Florida Tile Inc. including 24 direct sales stores.
With reference to buildings used as production plants and warehouses, the Group has entered into long-term contracts to ensure the right to use these assets and to be able to plan its industrial policy over a sufficiently long period of time.

**Net financial debt prior to IFRS 16**

Following the cash flow statement, netted by the effects of IFRS 16:

**Cash Flow Statement - WITHOUT IFRS 16 EFFECTS**
*(values in million Euros)*

| | 31/3/2019 | 31/12/2018 | 31/3/2018 |
|---|---|---|---|
| **Financial position - opening balance** | **(98,5)** | **(99,4)** | **(99,4)** |
| Net profit (loss) for the period - BEFORE IFRS 16 | (0,9) | (4,1) | (0,3) |
| Amortisation and depreciation | 5,2 | 21,1 | 5,0 |
| Net change in provisions | (0,9) | (1,4) | (0,5) |
| Other non-monetary changes | 0,1 | 0,0 | 0,2 |
| **Internal operating cash flow** | **3,5** | **15,6** | **4,4** |
| Change in net working capital and other assets and liabilities | (14,6) | 8,3 | (12,8) |
| Dividends | 0,0 | (3,1) | 0,0 |
| Net investments | (3,3) | (19,2) | (4,3) |
| Changes in equity | 1,0 | 0,4 | (0,1) |
| Exchange difference from translation of foreign financial statements | (0,6) | (1,0) | 0,2 |
| **Financial position - closing balance** | **(112,5)** | **(98,5)** | **(112,0)** |

Net financial debt (prior to the application of IFRS 16) is substantially in line with the figure for the first quarter of 2018.
The increase of Euro 14.0 million compared to 31 December 2018 is due to a natural seasonal trend, typical of the first quarter of the year, deriving from the trend of Net Working Capital.
The Group's objective is to significantly reduce its financial debt, through three main lines of action: improving operating margins, optimising net working capital and containing investments.

**Leasing Liabilities - IFRS 16**

This item was included in accordance with IFRS 16 and represents the value of the contractual commitments relating to “leasing” contracts in force at the closing date of the period and corresponds, in general, to the present value of future lease payments.
The amount at 31st March 2019 decreased pf 10.6 million Euros, if compared to 31st March 2018, mainly for the effect of the lease instalment payments made on the last 12 months.

## 3. BUSINESS OUTLOOK

Despite the negative economic result, the first quarter of 2019 has shown some important positive signs, which suggest a reversal of the trend compared to the difficult 2018.

The growth in volumes sold in the European Business Units, which exceeded the data available on the sector's performances, is evidence of the appreciation of the commercial offer of Panariagroup and Gres Panaria Portugal in the markets and, albeit with due caution, instils us with confidence for the continuation of the year.

In relation to the main factors penalising the margin in the first quarter of 2019, we have good reason to believe that the situation may improve in the coming months.

Firstly, there should be an increase in sales margins, as a result of the entry into force of the 2019 price lists, of further pricing actions on specific product categories and the full application of the directives to the sales force aimed at safeguarding the contribution margin.

In addition, a reduction in gas tariffs is expected in the second half of the year, which should gradually allow for a recovery of the cost gap that is already heavily impacting the first half of 2019.

We expect the production capacity of the Lawrenceburg plant to be used more intensively in the second half of 2019, thanks to the positive effects of the significant increase in turnover in the “Home Centre” channel.

We will also continue to pay attention to the containment of operating and structural costs, with targeted action on situations considered to be less efficient and productive, as will the activities for the optimisation and improvement of personnel management.

The hoped-for improvement in margins, together with the reduction in the incidence of Net Working Capital on Revenues, and the planned containment of investments, should jointly contribute to a progressive improvement in Net Financial Debt.

## 4. SIGNIFICANT EVENTS AFTER THE CLOSE OF THE QUARTER

No significant events are to be reported.

## APPENDIX 1
## INCOME STATEMENT - IFRS 16 RECONCILIATION

| | 31/3/2019 | IFRS 16 | 31/3/2019 |
|---|---|---|---|
| **Gross Operating Margin** | **4,2** | **3,3** | **7,5** |
| D&A expenses | (5,2) | (2,8) | (7,9) |
| Allowance and Provisions | (0,2) | 0,0 | (0,2) |
| **Net Operating Margin** | **(1,2)** | **0,5** | **(0,7)** |
| Financial income and expense | (0,2) | (0,6) | (0,8) |
| **Pre-tax profit** | **(1,4)** | **(0,1)** | **(1,5)** |
| Income taxes estimated | 0,5 | 0,0 | 0,5 |
| **Net profit (loss) for the period** | **(0,9)** | **(0,1)** | **(1,0)** |

| | 31/3/2018 | IFRS 16 | 31/3/2018 |
|---|---|---|---|
| **Gross Operating Margin** | **5,8** | **3,4** | **9,2** |
| D&A expenses | (5,0) | (2,9) | (7,9) |
| Allowance and Provisions | (0,2) | 0,0 | (0,2) |
| **Net Operating Margin** | **0,6** | **0,5** | **1,1** |
| Financial income and expense | (1,0) | (0,7) | (1,7) |
| **Pre-tax profit** | **(0,4)** | **(0,2)** | **(0,6)** |
| Income taxes estimated | 0,1 | 0,1 | 0,2 |
| **Net profit (loss) for the period** | **(0,3)** | **(0,1)** | **(0,4)** |

## APPENDIX 2
## BALANCE SHEET - IFRS 16 RECONCILIATION

| | 31/3/2019 | | | 31/12/2018 | | | 31/3/2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | IFRS 16 | | | IFRS 16 | | | IFRS 16 | |
| | PRE | ADJ | POST | PRE | ADJ | POST | PRE | ADJ | POST |
| **NET WORKING CAPITAL** | **136,4** | **(0,3)** | **136,0** | **122,2** | **(0,2)** | **121,9** | **142,1** | **(0,5)** | **141,6** |
| **FIXED ASSETS** | **147,4** | **115,4** | **262,8** | **148,7** | **118,2** | **266,9** | **146,7** | **126,9** | **273,6** |
| **ASSET AND LIABILITIES DUE AFTER THE YEAR** | **(4,0)** | **0,3** | **(3,8)** | **(5,3)** | **0,2** | **(5,1)** | **(7,7)** | **0,1** | **(7,6)** |
| **NET CAPITAL EMPLOYED** | **279,8** | **115,4** | **395,1** | **265,5** | **118,2** | **383,7** | **281,2** | **126,4** | **407,6** |
| | | | | | | | | | |
| **NET FINANCIAL POSITION BEFORE IFRS 16 APPLICATI** | **112,5** | **0,0** | **112,5** | **98,5** | **0,0** | **98,5** | **112,0** | **0,0** | **112,0** |
| Lease Obligations IFRS 16 | 0,0 | 121,6 | 121,6 | 0,0 | 124,3 | 124,3 | 0,0 | 132,2 | 132,2 |
| **NET FINANCIAL POSITION AFTER IFRS 16 APPLICATIO** | **112,5** | **121,6** | **234,1** | **98,5** | **124,3** | **222,8** | **112,0** | **132,2** | **244,3** |
| **SHAREHOLDERS' EQUITY** | **167,2** | **(6,3)** | **161,0** | **167,1** | **(6,2)** | **160,9** | **169,1** | **(5,8)** | **163,3** |
| **TOTAL SOURCES OF FOUNDS** | **279,8** | **(6,3)** | **395,1** | **265,5** | **(6,2)** | **383,7** | **281,2** | **(5,8)** | **407,6** |