



INTERIM REPORT ON OPERATIONS AS AT 30 SEPTEMBER 2020

Panariagroup Industrie Ceramiche Spa

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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, devoted to the beauty and quality of our products.
- Our goal is to meet our private and professional clients' high expectations in terms of well-being and aesthetics, in architecture and in the construction industry.

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 strive for industrial excellence, from quality raw materials to process efficiency, in order to achieve 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, by operating with the utmost respect for those who work with us.

RELIABILITY

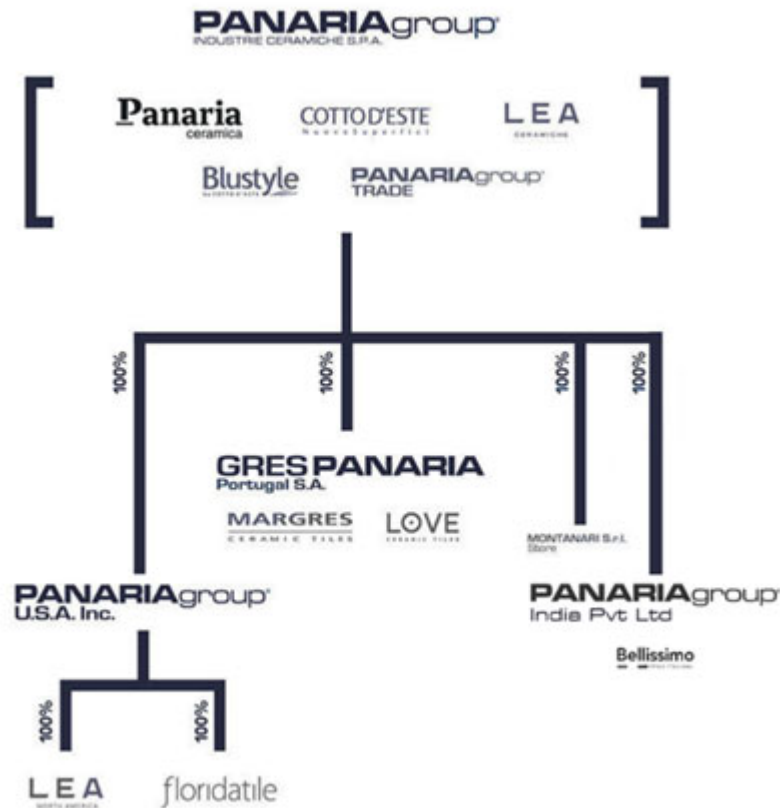
The guarantee of a Group which, from its family roots in the Sassuolo ceramic district to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world while maintaining an Italian core.

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

Specialized in the production of porcelain and laminated stoneware, the Group is positioned in the high-end and luxury market through its eight brand names: Panaria, Lea, Cotto d'Este, Blustyle, Florida Tile, Margres, Love Tiles and Bellissimo, which satisfy a diversified customer base that is attentive to products' technical and aesthetic quality.

STRUCTURE OF THE GROUP

The structure of the Group as at 30 September 2020 is as follows:



The Group is organised into 4 main Business Units:

Italy Business Unit

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, 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 four distinctive brand names: Panaria, Lea, Cotto d'Este and Blustyle. All brands are focused on the high-end and luxury market segment and mainly sell porcelain stoneware product lines, both in Italy and abroad.

Montanari Ceramiche S.r.l., based in Finale Emilia, Modena (Italy), share capital of Euro 48,000, wholly-owned by Panariagroup Industrie Ceramiche S.p.A. It is a ceramic tiles retail store.

USA Business Unit

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 and sells 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 in the east coast.

Lea North America LLC., based in Delaware, USA, share capital of USD 20,000, wholly owned by Panariagroup USA Inc.

The company sells Lea branded products on the North American market.

Portugal Business Unit

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 wall coverings under two brand names, Margres and Love Tiles, both focused on the main European markets.

India Business Unit

Panariagroup India Industrie Ceramiche Pvt Ltd, based in Ahmedabad (India), share capital of INR 188,330,000, wholly-owned by Panariagroup Industrie Ceramiche S.p.A.

The company sells Bellissimo branded products on the Asian market.

1. DIRECTORS AND OFFICERS

Board of Directors

Name and surname	Office
Mussini Emilio	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 and surname	Office
Marchese Sergio	Chairman of the Board of Statutory Auditors
Ascari Piergiovanni	Standing Auditor
Muserra Francesca	Standing Auditor

Independent Auditors

EY S.p.A.

2. INCOME STATEMENT AND BALANCE SHEET

3.1 Income Statement – Comparison between 30 September 2020 and 30 September 2019 (Figures in thousands of euros)

	CUMULATED				
	30/09/2020		30/09/2019		
	eur (000)	%	eur (000)	%	var € (000)
Revenues from sales and services	269.839	103,5%	292.041	96,3%	(22.202)
Change in inventories of finished products	(15.896)	-6,1%	3.268	1,1%	(19.164)
Other Revenues	6.711	2,6%	7.940	2,6%	(1.229)
Value of Production	260.654	100,0%	303.249	100,0%	(42.595)
Raw Materials	(81.893)	-31,4%	(93.468)	-30,8%	11.575
Services	(87.402)	-33,5%	(109.229)	-36,0%	21.827
Personnel Costs	(61.566)	-23,6%	(71.942)	-23,7%	10.376
Other operating expenses	(2.106)	-0,8%	(2.701)	-0,9%	595
Production Costs	(232.967)	-89,4%	(277.340)	-91,5%	44.373
Gross Operating Profit	27.687	10,6%	25.909	8,5%	1.778
Amortisation and depreciation	(16.366)	-6,3%	(15.941)	-5,3%	(425)
Amortization of right of use of assets	(8.365)	-3,2%	(8.299)	-2,7%	(66)
Provisions and writedowns	(3.373)	-1,3%	(1.530)	-0,5%	(1.843)
Net Operating Profit (before Impairment)	(417)	-0,2%	139	0,0%	(556)
Impairment	(6.500)	-2,5%	—	0,0%	(6.500)
Net Operating Profit	(6.917)	-2,7%	139	0,0%	(7.056)
Financial income (expense)	(2.330)	-0,9%	(1.128)	-0,4%	(1.202)
IFRS 16 Financial Expenses	(1.585)	-0,6%	(1.686)	-0,6%	101
Pre-tax profit	(10.832)	-4,2%	(2.675)	-0,9%	(8.157)
Income Taxes	3.338	1,3%	876	0,3%	2.462
Net result for the period	(7.494)	-2,9%	(1.799)	-0,6%	(5.695)

3.2 Income Statement - Comparison between 3rd quarter of 2020 and 3rd quarter of 2019 (Figures in thousands of euros)

		QUARTER				
		Q3 - 2020		Q3 - 2019		
		eur (000)	%	eur (000)	%	var € (000)
R05	Revenues from sales and services	94.117	106,8%	90.770	100,2%	3.347
R10	Change in inventories of finished products	(8.011)	-9,1%	(2.757)	-3,0%	(5.254)
R20	Other Revenues	2.029	2,3%	2.568	2,8%	(539)
Value of Production		88.135	100,0%	90.581	100,0%	(2.446)
C10	Raw Materials	(27.808)	-31,6%	(28.303)	-31,2%	495
C20	Services	(30.185)	-34,2%	(33.903)	-37,4%	3.718
C30	Personnel Costs	(20.984)	-23,8%	(22.277)	-24,6%	1.293
C40	Other operating expesnes	(682)	-0,8%	(1.018)	-1,1%	336
Production Costs		(79.659)	-90,4%	(85.501)	-94,4%	5.842
Gross Operating Profit		8.476	9,6%	5.080	5,6%	3.396
A10	Amortisation and depreciation	(5.429)	-6,2%	(5.487)	-6,1%	58
A20	Amortization of right of use of assets	(2.704)	-3,1%	(2.749)	-3,0%	45
A30	Provisions and writedowns	(239)	-0,3%	(88)	-0,1%	(151)
Net Operating Profit		104	0,1%	(3.244)	-3,6%	3.348
F10	Financial income (expense)	(1.112)	-1,3%	(92)	-0,1%	(1.020)
F20	IFRS 16 Financial Expenses	(505)	-0,6%	(557)	-0,6%	52
Pre.tax profit		(1.513)	-1,7%	(3.893)	-4,3%	2.380
I10	Income Taxes	640	0,7%	1.280	1,4%	(640)
Net result for the period		(873)	-1,0%	(2.613)	-2,9%	1.740

3.3 Income Statement at 30/09/2020 broken down by quarters (Figures in thousands of euros)

	BY QUARTER							
	Q1 - 2020		Q2 - 2020		Q3 - 2020		Totale	
	eur (000)	%	eur (000)	%	eur (000)	%	eur (000)	%
Revenues from sales and services	92.476	99,7%	83.246	104,3%	94.117	106,8%	269.839	103,5%
Change in inventories of finished products	(2.083)	-2,2%	(5.802)	-7,3%	(8.011)	-9,1%	(15.896)	-6,1%
Other Revenues	2.322	2,5%	2.360	3,0%	2.029	2,3%	6.711	2,6%
Value of Production	92.715	100,0%	79.804	100,0%	88.135	100,0%	260.654	100,0%
Raw Materials	(29.172)	-31,5%	(24.913)	-31,2%	(27.808)	-31,6%	(81.893)	-31,4%
Services	(32.426)	-35,0%	(24.791)	-31,1%	(30.185)	-34,2%	(87.402)	-33,5%
Personnel Costs	(23.386)	-25,2%	(17.196)	-21,5%	(20.984)	-23,8%	(61.566)	-23,6%
Other operating expenses	(779)	-0,8%	(645)	-0,8%	(682)	-0,8%	(2.106)	-0,8%
Production Costs	(85.763)	-92,5%	(67.545)	-84,6%	(79.659)	-90,4%	(232.967)	-89,4%
Gross Operating Profit	6.952	7,5%	12.259	15,4%	8.476	9,6%	27.687	10,6%
Amortisation and depreciation	(5.410)	-5,8%	(5.527)	-6,9%	(5.429)	-6,2%	(16.366)	-6,3%
Amortization of right of use of assets	(2.801)	-3,0%	(2.860)	-3,6%	(2.704)	-3,1%	(8.365)	-3,2%
Provisions and writedowns	(302)	-0,3%	(2.832)	-3,5%	(239)	-0,3%	(3.373)	-1,3%
Net Operating Profit (before Impairment)	(1.561)	-1,7%	1.040	1,3%	104	0,1%	(417)	-0,2%
Impairment	–	0,0%	(6.500)	-8,1%	–	0,0%	(6.500)	-2,5%
Net Operating Profit	(1.561)	-1,7%	(5.460)	-6,8%	104	0,1%	(6.917)	-2,7%
Financial income (expense)	(418)	-0,5%	(800)	-1,0%	(1.112)	-1,3%	(2.330)	-0,9%
IFRS 16 Financial Expenses	(345)	-0,4%	(735)	-0,9%	(505)	-0,6%	(1.585)	-0,6%
Pre-tax profit	(2.324)	-2,5%	(6.995)	-8,8%	(1.513)	-1,7%	(10.832)	-4,2%
Income Taxes	658	0,7%	2.040	2,6%	640	0,7%	3.338	1,3%
Net result for the period	(1.666)	-1,8%	(4.955)	-6,2%	(873)	-1,0%	(7.494)	-2,9%

3.4 Reclassified statement of financial position

(Figures in thousands of euros)

	30/9/2020	31/12/2019	30/9/2019
Inventories	144.358	164.289	164.236
Receivables from customers	64.981	58.844	70.064
Other current assets	9.835	12.332	15.225
CURRENT ASSETS	219.174	235.465	249.525
Payables due to suppliers	(81.240)	(82.103)	(79.422)
Other current liabilities	(27.278)	(26.398)	(31.743)
CURRENT LIABILITIES	(108.518)	(108.501)	(111.165)
NET WORKING CAPITAL	110.656	126.964	138.360
Goodwill	8.464	8.464	8.139
Intangible Assets	15.318	17.113	17.537
Tangible Assets	110.664	115.459	118.964
Right of Use . Leasing assets	93.595	101.451	102.179
Equity Investments	37	32	258
FIXED ASSETS	228.078	242.519	247.077
Receivables due after the following years	341	368	571
Liabilities for employee benefits	(5.021)	(5.046)	(4.957)
Provisions for risks and charges	(11.552)	(11.938)	(12.329)
Deferred Tax Asset	21.477	18.122	15.685
Other payables due after 12 months	(2.614)	(1.644)	(1.431)
ASSET AND LIABILITIES DUE AFTER 12 MONTHS	2.631	(138)	(2.461)
NET CAPITAL EMPLOYED	341.365	369.345	382.976
Short-Term Financial Assets	(34.529)	(9.384)	(13.496)
Mid-Long Term Financial Assets	(17.082)	(17.803)	(19.290)
Short-Term Financial Liabilities	29.128	57.314	58.704
Mid-Long Term Financial Liabilities	114.948	75.463	85.554
NET FINANCIAL DEBT ANTE IFRS 16	92.465	105.590	111.472
Short-Term debt - Lease contracts	10.151	9.464	9.974
Mid-Long Term Debts - Lease contract	91.354	96.967	97.606
DEBT FOR LEASING CONTRACT	101.505	106.431	107.580
NET FINANCIAL DEBT POST IFRS 16	193.970	212.021	219.052
GROUP SHAREHOLDER EQUITY	147.395	157.324	163.924
TOTAL SOURCES OF FUNDS	341.365	369.345	382.976

3.5 Consolidated Net Financial Position (Figures in thousands of euros)

	30/09/2020	31/12/2020	30/09/2019
Cash and cash equivalent	(33.373)	(8.179)	(12.253)
Due to banks - Short term	27.337	55.862	55.252
Other Financial liabilities - Short Term	635	247	2.209
Short-Term financial liabilities	27.972	56.109	57.461
Due to banks - Mid/Long Term	93.736	53.333	63.575
Other Financial liabilities - Mid/Long Term	4.130	4.327	2.689
Mid/Long-Term financial liabilities	97.866	57.660	66.264
Net financial Debt	92.465	105.590	111.472
Short-Term debt - Lease contracts	10.151	9.464	9.974
Mid-Long Term Debts - Lease contract	91.354	96.967	97.606
DEBT FOR LEASING CONTRACT	101.505	106.431	107.580
NET FINANCIAL DEBT POST IFRS 16	193.970	212.021	219.052

4. NOTES TO THE FINANCIAL STATEMENTS

4.1 Accounting standards and criteria adopted

The consolidated financial statements for the year ended 30 September 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Legislative Decree 38/2005.

The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Group adopted the IFRS standards issued by the International Accounting Standards Board officially approved by the European Union. The accounting standards adopted for the drafting of the financial statements do not differ from those applied in the financial statements as at 31 December 2019.

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

- As at 30 September 2020, four of the companies controlled by Panariagroup come under these provisions: Panariagroup USA Inc., Florida Tile Inc. Lea North America LLC and Panariagroup India.
- Adequate procedures have been adopted to ensure thorough compliance with the regulations (art. 36 of Market Regulations issued by Consob).

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
- **Panariagroup India Industrie Ceramiche Pvt Ltd,** wholly-owned

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

It should be noted that, as at 30 September 2019, the company “Panariagroup India”, previously 50% owned, was still accounted for with the “Equity Method”, while the first application of the line-by-line consolidation took place for the first time at the closing of the financial statements as at 31 December 2019.

The acquiree’s share of total assets and total Group revenues is less than 0.5%.

4.3 Comments on the operating performance

Summary of Income Statement - Figures as at 30 September 2020

(Figures in thousands of euros)

The Group's economic results were as follows:

- **Consolidated net revenues** came to Euro 269.8 million (Euro 292.0 million at 30 September 2019), down Euro 22.2 million (-7.6%)
- The **Value of Production** came to Euro 260.7 million (Euro 303.2 million at 30 September 2019), down Euro 42.6 million (-14.0%)
- **Gross operating profit** came to Euro 27.7 million, representing 10.6% of the Production Value (Euro 25.9 million as at 30 September 2019, equal to 8.5% of the Production Value), marking an increase of Euro 1.8 million (+7.0%).
- **Net EBIT (pre-impairment)** came to a negative Euro 0.4 million (positive for Euro 0.1 million as at 30 September 2019).
- **Net EBIT** was negative for Euro 6.9 million (positive for Euro 0.1 million as at 30 September 2019).
- **The Consolidated Net result** was a loss of Euro 7.5 million (loss of Euro 1.8 million as at 30 September 2019).

The Group's results were significantly affected by the impact of the worldwide spread of the Covid-19 virus, which caused a marked slowdown in the economy in general, and consequently also in our reference sector.

The trend in revenues in 2020, instead of following the usual seasonal pattern, closely followed the various phases of the virus' evolution, which had a limited impact in the first quarter, caused a negative shock in the second quarter and then saw its effects ease in the third.

In particular, in our Group we observed, in the same period of the previous year, a 4% decrease in revenues (Euro -3.9 million) in the first quarter, a 20% decrease (Euro -21.7 million) in the second quarter and a reversal of the trend in the third quarter with growth of approximately 4% (Euro +3.4 million), with an overall effect of -7.6% (Euro -22.2 million).

In view of the global nature of the viral phenomenon, all of Panariagroup's Business Units were affected by a reduction in turnover; the Italian BU was the one that suffered the most (-11.7%), while the impact on the Portuguese BU (-1.4%) and the US BU (-3.5%) was more limited.

In the face of a reduction in turnover, production activity also slowed down, both in compliance with the regulations imposed by the government authorities in March, April and May, and due to the choices made by the Group to reduce operating costs and contain inventory stocks.

The combined effect of the decrease in sales and lower production was a clear reduction in the Production Value of Euro 42.6 million or -14.0%.

In this context, so difficult to interpret and manage, the Group was able to contain the negative economic effects, obtaining, in the first 9 months of 2020, an improvement in EBITDA, both in absolute terms (Euro +1.8 million) and in relative terms, with GOP as a percentage of Production Value increasing from 8.5% to 10.6%.

In the third quarter, the improvement in operating margin is even more marked: EBITDA increased from Euro 5.1 million to Euro 8.5 million, an increase of Euro 3.4 million.

The achievement of improved operating profit margins, in a complex situation such as the current one, is to be considered a very important result, and is the result of the incisive actions implemented by the Group, both for the structural increase in profitability and to tackle the sudden impact of the pandemic on turnover.

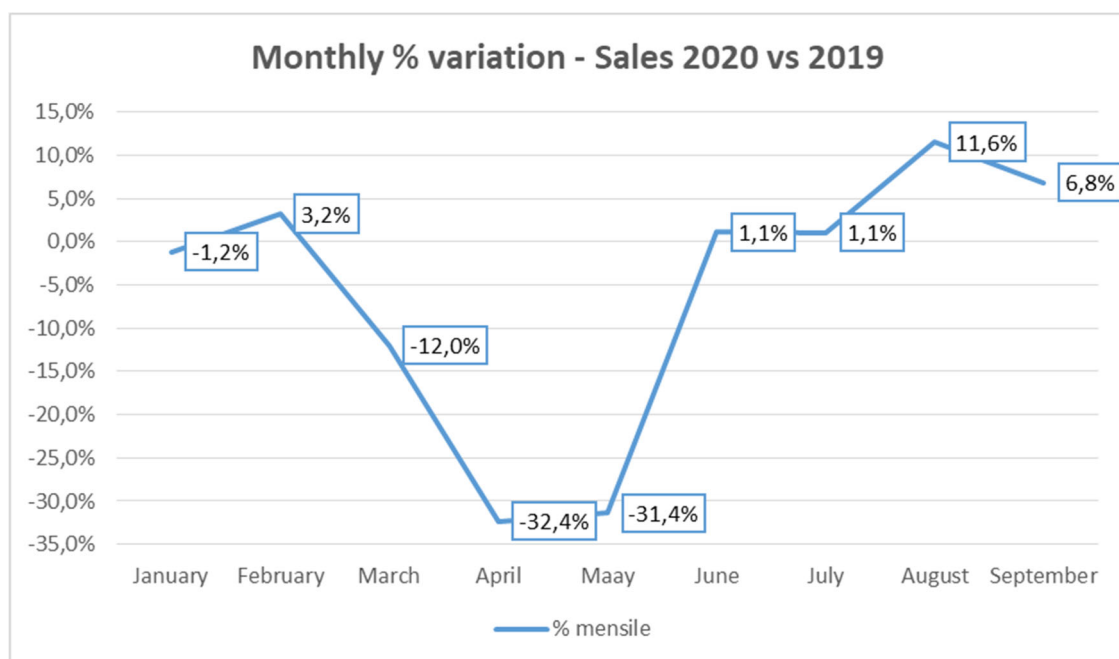
We consider the financial results obtained even more important. Compared to 30 September 2019, we recorded an improvement in the Net Financial Position (pre-IFRS 16) of Euro 19.1 million (from Euro 111.5 to 92.4 million); if we consider the post-IFRS 16 Net Financial Position, the improvement is even more marked (Euro 25.0 million).

In addition to the significant reduction in financial indebtedness, the Group has significantly extended the average duration of its loans, thanks to the execution of new medium/long-term transactions during the year for Euro 36 million and the obtainment of Covid moratoria which allowed the shifting of Euro 20.6 million originally due in 2020 to subsequent years.

Consolidated Revenues

Consolidated Revenues decreased by Euro 22.2 million compared to 30 September 2019, with a reduction of 7.6%.

The graph below shows the trend in monthly revenues, updated to 30 September 2020, compared with the same period of the previous year.



After the first two months essentially in line with 2019, March, April and May were heavily affected by the effects of lock-down measures and the spread of the pandemic; the situation began to normalise in June and July and then showed substantial improvements during the months of August and September.

Main reference markets

Turnover in **European markets** fell by 4.6% overall compared with 2019, with a solid recovery in the third quarter (+7.2% compared with the same period last year).

The drop in sales mainly concerned the countries most affected by the epidemic, such as Spain, France and the United Kingdom, with decreases of between 15% and 30%; the Eastern Europe area also fell (-14%).

On the other hand, the growing results achieved in some of the Group's main markets, such as Germany, Austria and Switzerland, should be viewed positively.

The impact of the European markets on total revenues was **38%**.

Turnover in the **US market** was down 1.7%, with an improved performance in the third quarter (+2.2% compared with the same period last year).

Despite the difficult environment, our American BU was able to continue its development plan on new distribution channels with excellent results; this allowed us to almost completely offset the negative effects that the pandemic had on the performance of the most consolidated sales channels.

The impact of the US market on total revenues was **36%**.

The **Italian market**, which dropped 15% (decrease of 16.3% for the sector), was definitely among the sectors hit hardest by the spread of the virus, also due to the lock-down that concerned the commercial activities of our industry for an extremely long period of time, with a dramatic impact in March, April and May.

After a fall of 27% in the first half of the year, there was an excellent recovery in the third quarter (+17% on the same period of the previous year).

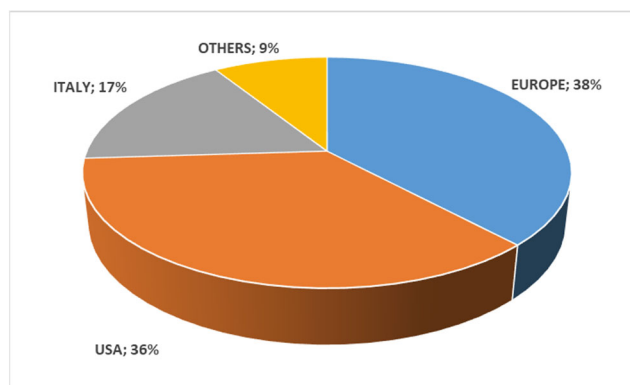
The impact of the Italian market on total revenues was **17%**.

In the **other markets (Asia, Canada, South America, Oceania and Africa)** the Group also suffered a decrease in turnover linked to the pandemic; the overall decrease of 20% is, however, an improvement compared to the figure for the first half of the year, when there was a reduction of 27%.

The main difficulties were encountered in Asia, particularly in the Far East; in this area, the third quarter did not show a positive "rebound" as in Europe, but a substantial alignment with 2019.

The impact of the "other markets" on total revenues was **9%**.

The turnover of the Group's **foreign markets** is therefore equal to **83%** of the total, with the share of **non-European markets** equal to **45%** of total turnover.



The current situation has highlighted the strategic value of Panariagroup's structure even more, which is geographically diversified, both from a commercial and distribution point of view and from a logistical and productive one.

Performance of the Group Divisions

The **Italian Business Unit** was the most adversely impacted, in terms of turnover, by the Covid-19 virus, registering a decrease of 11.7%, but at the same time it is the BU that recorded the best performance in the third quarter, achieving an excellent +10.5% compared to the same period of the previous year.

A homogeneous trend was in evidence in all the Commercial Divisions (Panaria, Lea, Cotto d'Este, Trade), which accurately reflected the evolution of the virus in the main reference markets.

The Italian BU's plants were shut down for an extended period during the lock-down in spring 2020, but the production programme for the following months was also revised in line with lower turnover and stock reduction targets.

The **Portuguese Business Unit** almost completely recovered the gap accumulated in the first half of the year (-7.3%), posting results at the end of September quite close to the results of 2019 (-1.4%).

With reference to the main markets, the stability on the domestic market and the excellent performances recorded in Germany should be underlined, while there was a downturn in France.

A long halt in production (4 weeks) also affected the Portuguese plants and a major revision of the production plan was carried out, especially with a view to a significant drop in stocks.

The **US Business Unit** recorded a 3.5% drop in sales, closely correlated to the trend in the pandemic, which did not spare many areas of the U.S., even though we did not see any lock-downs as extensive and rigid as those experienced in Europe.

In general, in the American system, the pandemic phenomenon penalised, in particular, all the traditional distribution channels, while there was a greater concentration of consumption on so-called "Home Centres" and "on-line" sales.

In the United States, no forced closures were imposed at the Lawrenceburg plant, but only a slight slowdown in production activities was recorded, with the aim of maintaining the necessary balance between production and sales.

Operating results

EBITDA came to **Euro 27.7 million**, equal to 10.6% of Production Value (Euro 25.9 million at 30 September 2019, equal to 8.5%); in the single quarter, EBITDA was Euro **8.5 million**, marking a significant increase (Euro +3.4 million) compared to the result of the third quarter of 2019.

The improvement in operating margins is a hugely significant result, given the considerable decrease in turnover and the notable reduction in production in the 9 months of 2020.

The decrease in revenues compared with the previous year (-7.6%), caused entirely by external factors, had a significant negative impact on the Group's operating results, but the impact on operating margins stemming from the decrease in production (-15.8%) compared with the same period last year was equally significant.

In view of these negative premises, which concern the backbone of the business, the Group has implemented all possible actions to offset their effects, with a recovery of profitability in other aspects of business management.

In this regard, it should be noted, first of all, that during 2019 a series of important activities had already been implemented in all the Group's Business Units and in all business segments, aimed at recovering profitability; after a two-year period below expectations, the expected results were achieved in 2020.

In particular, in the sales area, a strategy aimed at safeguarding sales prices, optimising marketing and merchandising expenses and increasing penetration into new sales channels and market segments was pursued.

In logistics and production, activities were ramped up aimed at rationalising and standardising products and processes, with major economic benefits, also thanks to the investments made during previous years.

The development of these initiatives was accompanied by an extraordinary activity related to the Covid-19 emergency, determined by the need to promptly and incisively tackle the negative economic impacts that the spread of the pandemic has generated.

In particular, the focus was on the drastic reduction in operating costs, with specific reference to personnel costs and expenses of a commercial nature.

As far as personnel costs are concerned, the reduction in hours worked, in response to the significant drop in turnover, was accompanied by the benefits deriving from the measures made available in Italy, Portugal and the USA by the respective national governments, making it possible to maintain the impact on Production Value unchanged.

Commercial costs were also reduced considerably, also taking into account their low level of effectiveness in a period where the market was so scarcely receptive.

The cancellation of trade fair events (Cersaie and Coverings above all), meetings and trips, has also allowed other significant savings with respect to normal operations.

In 2020, the Group was also able to benefit from the significant reduction in gas and electricity tariffs, whose significant growth was one of the main causes that had affected the economic results of the previous two years; expectations for the fourth quarter of 2020 and 2021 are a confirmation of current cost levels.

Net EBIT pre-impairment was a negative Euro 0.4 million (profit of Euro 0.1 million as at 30 September 2019).

The Net Operating Margin (pre-impairment) was penalised, compared to the previous year, by higher provisions totalling Euro 1.8 million, as an effect of the worsening of the stock turnover ratios, due to the drop in sales.

Although burdened by higher provisions than the previous year and greatly affected by external factors, the Net Operating Margin (pre-impairment) essentially shows a break-even position; this is undoubtedly an extremely positive result.

The **post-Impairment Net Operating Margin** was a negative Euro 6.9 million (positive Euro 0.1 million at 30 September 2019).

This intermediate result is strongly influenced by the impairment of Asset of Euro 6.5 million, already accounted in the Half-Year Statement, as result of the Impairment Test performed in accordance with IFRS principles; this allowance, merely done for accounting purposes, has to be considered as non-recurring.

In the single quarter, the Net Operating Margin was a positive Euro 0.1 million, an improvement of Euro 3.1 million compared to the third quarter of 2019.

Amortisation/depreciation, including therein that deriving from rights of use, rose slightly compared with 2019 in terms of absolute value, while the total incidence on Production Value rose from 8.0% to 9.5%.

In this respect, it should be noted that despite the prolonged down-time imposed by the lock-downs, amortisation/depreciation were calculated in their entirety, according to the international accounting standards.

Financial expenses increased by Euro 1.2 million, mainly due to the trend in the USD/EUR exchange rate; while in 2020 we recorded an exchange rate loss of Euro 0,5 million, in 2019 we recorded an exchange rate gain of Euro 0.5 million.

The consolidated net result was a loss of Euro 7.5 million (loss of Euro 1.8 million as at 30 September 2019).

Analysis of the balance sheet (Figures in thousands of euros)

	30/9/2020	31/12/2019	30/9/2019
NET WORKING CAPITAL	110.656	126.964	138.360
FIXED ASSET	228.078	242.519	247.077
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	2.631	(138)	(2.461)
NET CAPITAL EMPLOYED	341.365	369.345	382.976
NET FINANCIAL DEBT (PRE-IFRS 16)	92.465	105.590	111.472
LIABILITIES FOR LEASED ASSET	101.505	106.431	107.580
SHAREHOLDERS' EQUITY	147.395	157.324	163.924
TOTAL SOURCES OF FUNDS	341.365	369.345	382.976

Net Working Capital

Net Working Capital dropped by Euro 27.7 million (-20.2%), compared to 30 September 2019, due to a fall in Current Assets (mainly Inventories and Receivables from customers) of Euro 30.3 million (-12.2%) and a reduction in Current liabilities of Euro 2.6 million (-2.4%).

The significant reduction in the NWC is the result of a choice made during the acute phase of the Covid-19 emergency, in which it became clear that a management approach aimed at maximum protection of liquidity was a priority and therefore, for this purpose, it was considered essential to recover financial resources from the reduction of stocks held.

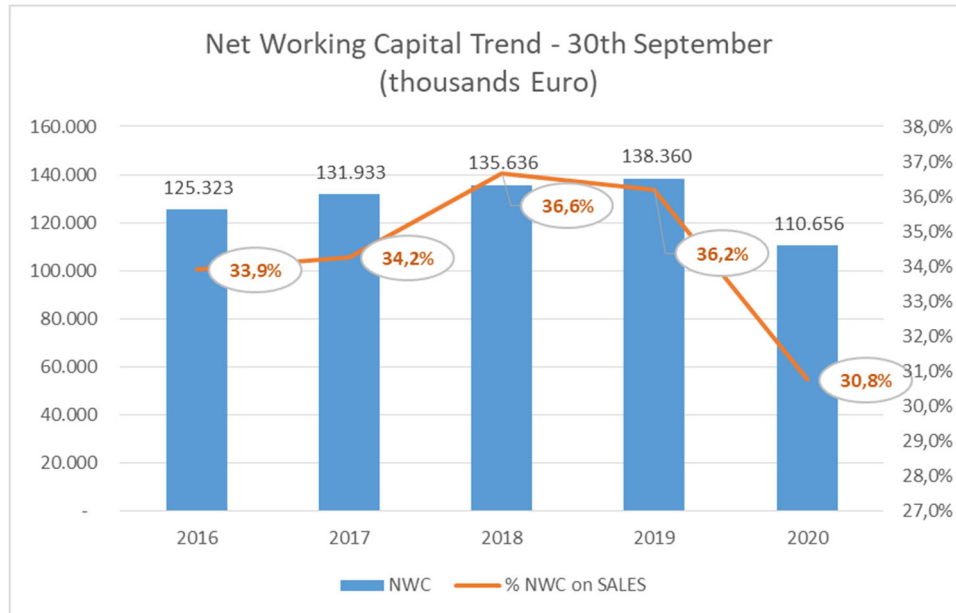
This policy was also confirmed in the following months, having noted the ability to maintain a high level of service for customers, in terms of delivery times, even with a lower level of stock held.

Trade receivables decreased by 7.2% compared to 30 September 2019, in line with the change in turnover; during 2020, despite the extremely difficult economic context, there were no slowdowns in the flow of collections, except in the very first few months of the emergency, nor significant losses on receivables.

Trade payables increased slightly compared to 30 September 2019, due mainly to the recovery in production and investments in the third quarter.

We stress that the Group, even in the most difficult moments of the pandemic, continued to maintain excellent relations with all suppliers, fulfilling the commitments undertaken and meeting deadlines agreed upon.

The graph below shows the significant value of the result obtained; the figure for 2020 is clearly the best in the last 5 years, both in absolute terms and as a percentage of sales; in the coming months, the Group's objective will be to consolidate the results obtained.



Non-current assets (net of rights of use for leased assets)

Non-current assets (net of rights of use for leased assets) decreased by Euro 6.6 million since the beginning of the year, due to the following:

- Investments in the period totalling Euro 14.2 million, of which Euro 10.1 million realised in Italy, Euro 1.4 million in Portugal and Euro 2.7 million in the United States.
- Amortisation and depreciation for the period of Euro 16.4 million.
- Impairment of assets in the American BU of Euro 3.3 million.
- Lower value of fixed assets expressed in Euros of the US sub-consolidation, due to the depreciation of the US currency with respect to the end of 2019, amounting to Euro 1.1 million.

The improvement in the economic situation in recent months, together with the significant financial strengthening carried out, led, in the last quarter, to a restarting of investment projects that had been temporarily suspended in the first half of the year.

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 lease agreements (leases, rentals and hires) for the duration of the contract.

It is important to stress that around 95% of the value refers to real estate leases that mainly concern the operating 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.

Asset impairment also involved this item of the financial statements, which was written-down for Euro 3.2 million.

Net financial debt prior to IFRS 16

Below is a summary of cash flows:

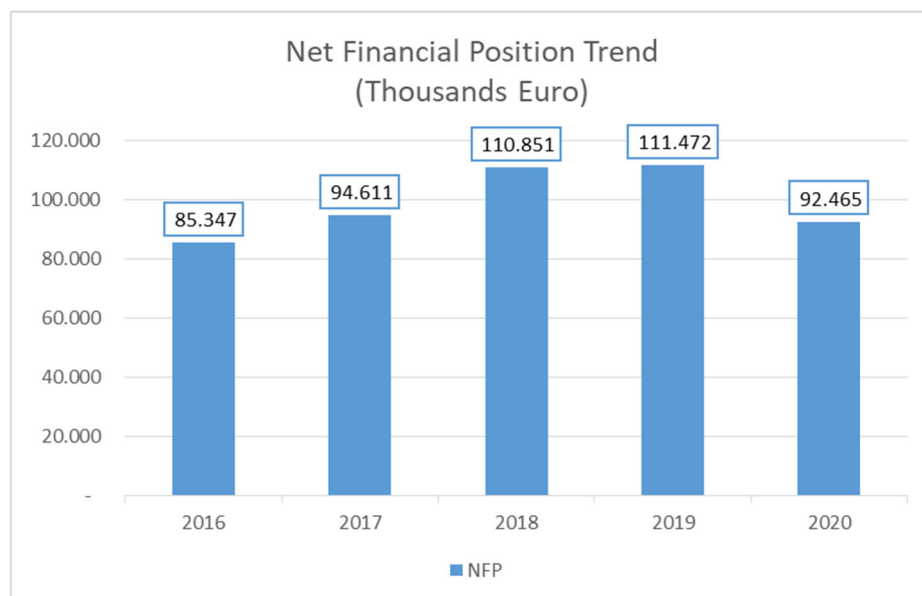
	30/9/2020	30/9/2019
Financial position - opening balance	(105,6)	(98,5)
Profit (loss) for the period	(7,5)	(1,8)
Amortisation and depreciation	24,7	24,3
Impairment of Asset	6,5	0,0
Net change in provisions	(1,4)	0,1
Other non-monetary changes	0,0	0,5
Internal operating cash flow	22,3	23,1
Change in net working capital and other assets and liabilities	13,1	(17,8)
Increase of Right of Use	(4,0)	(2,4)
Variation of Lease Financial Debt	(4,9)	(4,9)
Net investments	(14,4)	(9,8)
Change in Share-holders Equity	(0,6)	(1,2)
Exchange Rate differences from translation of foreign financial statements	1,4	0,0
	(92,5)	(111,5)

The Net Financial Position pre-IFRS 16, amounting to Euro 92.5 million, improved significantly, compared to 30 September 2019, by Euro 19.0 million.

The pandemic emergency has brought the issue of financial management and liquidity to the forefront for all companies.

Panariagroup has operated with two main objectives: the improvement of the Net Financial Position level and the restructuring of the medium/long-term financial debt with the aim of maintaining considerable room on the short-term facilities; we are able to state that, to date, both objectives have been fully achieved.

The improvement in the NFP, which is really significant, brings the Group back to levels similar to 2017 and was achieved thanks to the significant decrease in Net Working Capital, the significant reduction in operating costs and the temporary slowdown in investments made in the first half of the year.



The repositioning of financial debt in the medium to long term was also successful.

In the first place, the Group availed of the possibility of obtaining Covid moratoria on existing loans; the positive feedback from financial institutions allowed the company to shift Euro 20.6 million, originally expiring in 2020, to subsequent years.

In addition, in the first 9 months, new medium/long-term loan agreements were stipulated for a total of Euro 36 million; the loans include Euro 22 million in transactions connected with guarantees granted by the State (Italy and Portugal) as part of the measures implemented by the national governments to support the economy.

Thanks to the combined effect of the reduction in the Net Financial Position, the restructuring of medium/long-term debt and the obtainment of new loans, the balance of cash and cash equivalents as at 30 September 2020 was a credit balance of Euro 33.3 million.

Over the next few months, we will continue to pursue the objective of confirming the level of the Net Financial Position reached, making the improvement obtained structural and we will evaluate the possibility of new medium/long-term transactions aimed at supporting the strategic development plan.

Liabilities for leased assets

Liabilities for leased assets also fell compared to September 2019, down from Euro 107.6 million to Euro 101.5 million (Euro -6.1 million).

This item was included in accordance with IFRS 16 and represents the value of the contractual commitments relating to leasing agreements in force at the closing date of the period and corresponds, in general, to the present value of future lease payments.

Equity

Equity went from Euro 157.3 million at 31 December 2019 to Euro 147.9 million at 30 September 2020, with a decrease of Euro 9.4 million, due to the loss in the period (- Euro 7.5 million) and the negative exchange effect on the equity of the US companies (- Euro 1.9 million).

5. BUSINESS OUTLOOK

2020 is proving to be a truly unique year in history, characterised by a completely unprecedented phenomenon in the modern era and which, in addition to the primary health aspects, is severely testing the capacity of the economic system to cope with an uncertain and rapidly evolving situation.

The Group has managed, over these months, to find the right answers to the challenges that the evolution of the pandemic has thrown up on a daily basis in all aspects of company life, confirming its characteristics as a reliable, solid and sustainable company.

The priority challenge has encapsulated the aspects more strictly related to the health and safety of Group personnel; specific protocols have been adopted in this domain with even stricter and more meticulous safeguarding, protection and guarantee measures than those set forth in the agreements with the institutions and social parties.

Another fundamental aspect, tackled extremely effectively, has been financial management, which has led, in just a few months, to a clear improvement in the Net Financial Position, a significant extension of the average duration of loans and considerable cash and cash equivalents.

Also on the economic management front, heavily impacted by the “Covid effect” in sales and the decision to significantly reduce inventory stocks, the Group has taken the necessary counter-measures which have enabled it not only to lessen the negative impacts of the reduction in business, but also to achieve an improvement in the Gross Operating Margin.

We are fully aware that it will still be several months before we can return to a “normal” operating context, also in consideration of the evolution of the last few weeks, characterised by a sudden increase in the spread of the virus.

At the same time, we believe that the last few months have been a valuable experience that has allowed us to learn to coexist in this context of constant uncertainty and unpredictability, and to draw lessons for changing the usual company’s approach and behaviour also going forward.

The Group has already planned for the post-Covid phase, with a development plan that envisages, over the next few months, further improvement in industrial competitiveness, a broadening of coverage of the markets and a significant focus on research, development and innovation, with the conviction that the Group will be able to play an even more important future role in the sector than today.

6. SIGNIFICANT EVENTS AFTER THE CLOSE OF THE QUARTER

No significant events are to be reported.