



## Panariagroup Industrie Ceramiche S.p.A.

### QUARTERLY REPORT AS OF SEPTEMBER 30<sup>th</sup> , 2005



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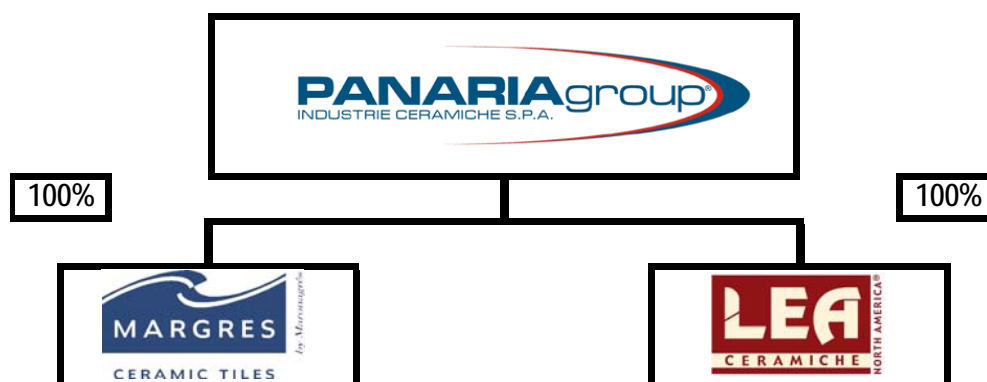
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## 1. GROUP STRUCTURE

As of September 30<sup>th</sup>, 2005, the Group was structured as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena, with a fully paid-in share capital of Euro 22,500,000.

Panariagroup manufactures and distributes floor and wall ceramic tiles under 4 distinct brand names: Panaria, Lea, Cotto d'Este and Fiordo. All brands are focused mainly on porcelain grès tiles and sell their product lines both on the domestic as well as on foreign markets.

**Maronagrês– Comércio e Indústria Cerâmica S.A.**, based in Chousa Nova, Ilhavo, with a paid-in share capital of Euro 8,037,285.00, is fully owned by Panariagroup following its acquisition in October 2002. The company is specialized in porcelain grès products and is focused on the Portuguese market. Maronagrês's product lines are sold under the brand name Margres.

**Lea North America Inc.**, based in 307, East Boulevard, Charlotte, Mecklenburg County, North Carolina, 28203, with a paid-in share capital of USD 20,000, is wholly owned by Panariagroup.

The company, that was incorporated on June 22nd, 2004 by Ceramiche Artistiche Lea, started its activity in July 2005, and engages in the marketing and distribution of the Lea brand products in North America.

## 2. CORPORATE BOARDS

### 2.1 Board of Directors

Name and surname	Office	Place and date of birth
Giuliano Mussini	Chairman of the Board of Directors	Modena, 10/9/1930
Giovanna Mussini	Deputy chairman of the Board of Directors	Sassuolo (MO), 12/4/1959
Andrea Mussini	Managing Director	Sassuolo (MO), 15/5/1958
Emilio Mussini	Managing Director	Sassuolo (MO), 20/4/1961
Giuseppe Mussini	Managing Director	Sassuolo (MO), 23/11/1962
Paolo Mussini	Managing Director	Sassuolo (MO), 11/2/1958
Giuliano Pini	Managing Director	Modena, 21/5/1952
Marco Mussini	Director	Sassuolo (MO), 21/7/1971
Giovanni Burani <sup>(*)</sup>	Director	Parma, 20/10/1964
Alessandro Iori <sup>(*)</sup>	Director	Reggio Emilia, 15/6/1943
Paolo Onofri <sup>(*)</sup>	Director	Bologna, 11/11/1946

(\*) Independent non-executive director

### 2.2 Board of Statutory Auditors

Name and surname	Office	Place and date of birth
Giovanni Ascari	Chairman of the Board of Auditors	Modena, 13/10/1935
Vittorio Pincelli	Standing auditor	Frassinoro (MO), 3/8/1943
Francesco Tabone	Standing auditor	Monza, 2/2/1956
Corrado Cavallini	Alternate auditor	Sassuolo (MO), 4/1/1971
Massimiliano Stradi	Alternate auditor	Sassuolo (MO), 16/3/1973

### 2.3 Independent Auditors

Deloitte & Touche S.p.A.

### 3. CONSOLIDATE P&L AND BALANCE SHEET

#### 3.1 Consolidated Profit and Loss account

(Cumulated)

(in € / 000)

<b>CUMULATED</b>	<b>30/9/2005</b>	<b>%</b>	<b>30/9/2004</b>	<b>%</b>
<b>Revenues from sales and services</b>	<b>180,235</b>	<b>93,79%</b>	<b>174,592</b>	<b>97,30%</b>
Changes in inventories of finished products	10,885	5,66%	3,670	2,05%
Addition to fixed assets	0,005	0,00%	0,000	0,00%
Other revenues	1,041	0,54%	1,184	0,66%
<b>Value of Production</b>	<b>192,165</b>	<b>100,00%</b>	<b>179,446</b>	<b>100,00%</b>
Raw, ancillary and consumable materials	(51,504)	-26,80%	(46,361)	-25,84%
Services, leases and rentals	(74,463)	-38,75%	(69,855)	-38,93%
Personnel costs	(32,429)	-16,88%	(29,425)	-16,40%
Changes in inventories of raw materials	0,278	0,14%	0,473	0,26%
Other operating expenses	(2,261)	-1,18%	(2,448)	-1,36%
<b>Cost of production</b>	<b>(160,379)</b>	<b>-83,46%</b>	<b>(147,616)</b>	<b>-82,26%</b>
<b>Gross operating profit</b>	<b>31,786</b>	<b>16,54%</b>	<b>31,831</b>	<b>17,74%</b>
D&A expenses and impairments	(8,711)	-4,53%	(9,035)	-5,03%
Provisions	(1,116)	-0,58%	(0,813)	-0,45%
<b>Net operating profit</b>	<b>21,959</b>	<b>11,43%</b>	<b>21,983</b>	<b>12,25%</b>
Financial income and expense	1,223	0,64%	(1,684)	-0,94%
<b>Pre-tax profit</b>	<b>23,182</b>	<b>12,06%</b>	<b>20,299</b>	<b>11,31%</b>
Income taxes	(9,628)	-5,01%	(8,520)	-4,75%
<b>Net profit for the period</b>	<b>13,554</b>	<b>7,05%</b>	<b>11,779</b>	<b>6,56%</b>

### 3.2 Consolidated Profit and Loss account

(3rd Quarter)

(in €000 )

3rd QUARTER	30/9/2005	%	30/9/2004	%
<b>Revenues from sales and services</b>	<b>55,984</b>	<b>96,43%</b>	<b>53,982</b>	<b>99,18%</b>
Changes in inventories of finished products	1,740	3,00%	0,079	0,15%
Addition to fixed assets	0,005	0,01%	0,000	0,00%
Other revenues	0,327	0,56%	0,367	0,67%
<b>Value of Production</b>	<b>58,055</b>	<b>100,00%</b>	<b>54,428</b>	<b>100,00%</b>
Raw, ancillary and consumable materials	(15,213)	-26,20%	(13,752)	-25,27%
Services, leases and rentals	(23,433)	-40,36%	(22,292)	-40,96%
Personnel costs	(9,843)	-16,95%	(9,092)	-16,70%
Changes in inventories of raw materials	(0,033)	-0,06%	0,067	0,12%
Other operating expenses	(0,807)	-1,39%	(0,747)	-1,37%
<b>Cost of production</b>	<b>(49,329)</b>	<b>-84,97%</b>	<b>(45,816)</b>	<b>-84,18%</b>
<b>Gross operating profit</b>	<b>8,726</b>	<b>15,03%</b>	<b>8,613</b>	<b>15,82%</b>
D&A expenses and impairments	(2,979)	-5,13%	(2,960)	-5,44%
Provisions	(0,372)	-0,64%	(0,286)	-0,53%
<b>Net operating profit</b>	<b>5,375</b>	<b>9,26%</b>	<b>5,367</b>	<b>9,86%</b>
Financial income and expense	0,164	0,28%	(0,642)	-1,18%
<b>Pre-tax profit</b>	<b>5,539</b>	<b>9,54%</b>	<b>4,725</b>	<b>8,68%</b>
Income taxes	(2,331)	-4,02%	(2,147)	-3,94%
<b>Net profit for the period</b>	<b>3,208</b>	<b>5,53%</b>	<b>2,578</b>	<b>4,74%</b>

### 3.3 Reclassified Balance Sheet

(in €000 )

	30/9/2005	30/6/2005	31/12/2004
Inventories	86,113	84,940	75,741
Accounts receivable	89,839	95,660	81,157
Other current assets	4,033	6,019	10,774
<b>CURRENT ASSETS</b>	<b>179,985</b>	<b>186,619</b>	<b>167,672</b>
Accounts payable	(55,984)	(65,696)	(58,923)
Other current liabilities	(29,446)	(26,623)	(25,406)
<b>CURRENT LIABILITIES</b>	<b>(85,430)</b>	<b>(92,319)</b>	<b>(84,329)</b>
<b>NET WORKING CAPITAL</b>	<b>94,555</b>	<b>94,300</b>	<b>83,343</b>
Intangible assets	4,813	4,860	4,842
Tangible assets	55,124	55,651	52,528
Equity investments and other financial fixed assets	0,004	0,004	0,004
<b>FIXED ASSETS</b>	<b>59,941</b>	<b>60,515</b>	<b>57,374</b>
Receivables due after the following year	3,212	3,153	2,704
Provisions for termination benefits	(6,674)	(6,467)	(6,237)
Provisions for risks and charges	(7,435)	(7,295)	(4,746)
Other payables due after the year	(1,627)	(2,042)	(2,544)
<b>ASSETS AND LIABILITIES DUE AFTER THE YEAR</b>	<b>(12,524)</b>	<b>(12,651)</b>	<b>(10,823)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>141,972</b>	<b>142,164</b>	<b>129,894</b>

Short term financial assets	(5,620)	(4,564)	(17,117)
Short term financial debt	2,827	4,664	6,535
<b>NET SHORT TERM FINANCIAL DEBT</b>	<b>(2,793)</b>	<b>0,100</b>	<b>(10,582)</b>
Mid-long term financial debt	5,938	6,404	6,686
<b>NET FINANCIAL POSITION</b>	<b>3,145</b>	<b>6,504</b>	<b>(3,896)</b>
Group Shareholders' Equity	138,827	135,660	133,790
<b>SHAREHOLDERS' EQUITY</b>	<b>138,827</b>	<b>135,660</b>	<b>133,790</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>141,972</b>	<b>142,164</b>	<b>129,894</b>

### 3.4 Net financial position

(in €000)

	30/09/2005	30/06/2005	31/12/2004
Securities	-	-	-
Cash and cash equivalents	(5,620)	(4,564)	(17,117)
<b>Short term financial assets</b>	<b>(5,620)</b>	<b>(4,564)</b>	<b>(17,117)</b>
Due to banks	1,549	3,144	2,636
Financial payables to holding companies	-	-	-
Due to other lenders	1,278	1,520	1,894
<b>Shor term financial debt</b>	<b>2,827</b>	<b>4,664</b>	<b>4,530</b>
Due to banks	0,932	0,932	1,250
Due to other lenders	5,006	5,472	5,441
Due to bondholders	-	-	2,000
<b>Mid-long term financial debt</b>	<b>5,938</b>	<b>6,404</b>	<b>8,691</b>
<b>Net financial position</b>	<b>3,145</b>	<b>6,504</b>	<b>(3,896)</b>



## **4. NOTES TO THE ACCOUNTS**

### **4.1 Accounting standards and criteria**

This consolidated quarterly report has been prepared in compliance with art. 82 of the enacting Regulations of Law Decree no. 58 dated February 24th, 1998 governing issuers (Consob Resolutions no. 11971 dated May 14<sup>th</sup>, 1999 and following amendments), and specifically in keeping with Appendix 3D of said Resolution. This report was not audited.

Following the European Union regulation n.1606/2002, starting from First Consolidated Half Report 2005, the Group adopted the International accounting standard (IFRS), issued by International Financial Accounting Standards Board.

The present Quarterly Report includes comparative data referring to the corresponding period of 2004 that has been recomputed following the new accounting standards.

The accounting charts were prepared as of September 30<sup>th</sup>, 2005.

The accounting figures do not contain any estimates other than those normally used when preparing a set of annual accounts.

The amount contained herein are shown and commented upon in thousand Euro, unless expressly indicated otherwise.

### **4.2 Consolidation scope**

The consolidation scope is unchanged from December 31<sup>st</sup> 2004, and it includes:

- **Panariagroup Industrie Ceramiche S.p.A.**, Parent Company
- **Maronagres Comercio e Industria Ceramica S.A.**, 100% owned, consolidated on a line by line basis;
- **Lea North America Inc.**, 100% owned, consolidated on a line by line basis.

#### 4.3 Executive report on operations

##### Profit and loss analysis

##### *Profit and Loss – Cumulated*

*(in € / 000 )*

	30/9/2005	%	30/9/2004	%	var. €	var. %
Revenues from sales and services	180,235	0,09%	174,592	0,10%	5,643	3,2%
Value of Production	192,165	100,00%	179,446	100,00%	12,719	7,1%
Gross operating profit	31,786	0,02%	31,831	0,02%	(0,045)	-0,1%
Net operating profit	21,959	0,01%	21,983	0,01%	(0,023)	-0,1%
Pre-tax profit	23,182	0,01%	20,299	0,01%	2,883	14,2%
Net profit for the period	13,554	0,01%	11,779	0,01%	1,775	15,1%

Third quarter performances substantially confirm what emerged from 1<sup>st</sup> half situation, both in growth and profitability.

- Consolidated **net sales**: amounted to **180,2** millions of Euro, up by **3,2%** over the same period of 2004.
- **Gross operating profit** and **Net operating profit**: respectively amounting to **31,8** millions of Euro and **22,0** millions of Euro, are practically in line with the results of the first 9 months of 2004.
- **Pre-tax profit**: was **23,2** millions of Euro, showing a **14.2%** increase over 2004 (+ 2,9 millions Euro).
- **Net profit**: after estimated taxes, totalled **13,5 millions** of Euro, up **15,1 %** (+1,8 millions Euro) over September 2004.

## Revenues

**Net sales** reported a growth rate of **3.2%** going from 174,6 millions euro in the first 9 months of 2004 up to 180,2 millions euro at September 30<sup>th</sup> 2005 (+5,6 millions euro); the sales increment was mainly driven by an increase in the average selling price.

In Italy, despite a non dynamic economic context, Panariagroup maintained its market share, realizing an increase of 1%.

On external markets (where is more focalized the distribution development strategy) Panariagroup realized a more sustained growth, higher than 4%.

In particular, it has to be underlined the growth realized from Panariagroup on the US market, higher than 20%.

The US market is the first external market for the Italian ceramic industry, considered also as the market with the highest potentiality in term of development.

Also on the European market, Panariagroup realized better results than in the previous year, with an aggregate growth of more than 3%, maintaining its position in important and traditional markets for the ceramic industry like Germany and France.

Shown below, is a summary table with a breakdown of sales by the Group's major markets:

Revenues by geographical area (gross of customer incentives)				(in thousand euro)
Country	30/09/2005	30/09/2004	change	%
1 ITALY	78,000	77,100	0,900	+ 1,2%
2 USA	17,562	14,400	3,162	+ 22,0%
3 FRANCE	14,372	14,100	0,272	+ 1,9%
4 PORTUGAL	11,749	10,500	1,249	+ 11,9%
5 BELGIUM	12,310	12,900	- 0,590	- 4,6%
6 GERMANY	10,447	10,200	0,247	+ 2,4%
7 NETHERLANDS	8,821	8,700	0,121	+ 1,4%
8 SWITZERLAND	3,291	2,932	0,359	+ 12,2%
9 UNITED KINGDOM	2,658	2,501	0,157	+ 6,3%
10 GREECE	2,493	2,339	0,154	+ 6,6%

Compared with the first half closing, it has to be underlined a further increase on the US market, that passed from an increase of 11.7% in the first half 2005 to more than 20% in the first 9 months of 2005.

A further increase has been recorded in Portugal where the growth passed from + 5.1% in the first half to an higher increase of about 12% at the end of September.

Finally it is remarkable the complete recovery on the Dutch Market where the negative trend recorded in the first two quarters (the situation at the end of June showed a decrease in sales of more than 6%) has been completely removed in the third quarter.

The performance of the 5 brands distributed by Panariagroup can be summarized as follows:

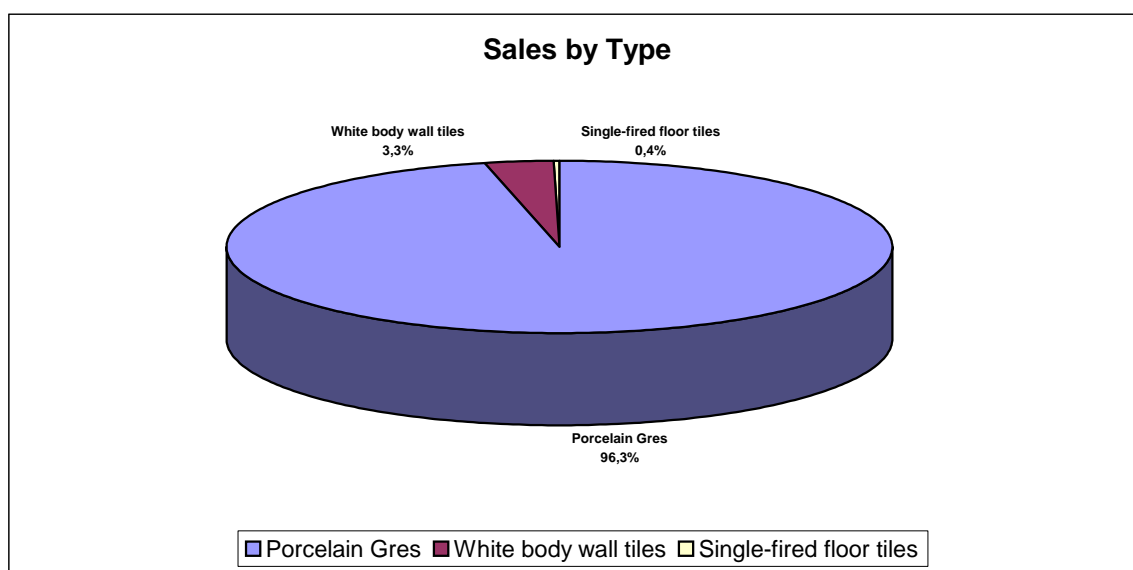
- The **Panaria** brand realized a strong growth of 10.8%, mainly driven by the excellent result recorded in the USA market and by the good results obtained on the European markets, both underlined by “double-digits” growth rates.
- The **Lea** brand reported a decrease of 6% mainly due to the decline in sales of the Asian Market; in particular the last one shows in the current year a reduction in sales destined to “big projects”, normally characterized by a less regular trend.
- The **Cotto d'Este** brand, even lightly under 2004 (-2.2 %) is completing the recovery, already begun in the second quarter, that could allow at the end of the year the alignment to the performance of the previous year.
- The **Fiordo** brand obtained a brilliant performance (+18.4%), as a consequence of the development realized on the Domestic market (+14.5%) and on the European markets (+22%), that has been very strong also in the third quarter 2005.
- The **Margres** brand realized a further improvement in its development (+15.3%), obtaining an excellent performances both on domestic and external markets; it is still continuing the strategy of elevation of the range of products that has allowed to reach a relevant increase in the average price (about + 10%).

The product types distributed by the Group are practically three: porcelain gres, single-fired floor tiles (out of production since June 2004) and white body wall tiles.

**Revenues by type of product** (gross of customer incentives)

(in thousand Euro)

Nazione	30/09/2005	30/09/2004	var.	var %
Porcelain Gres	176,709	165,905	10,803	+ 6,5%
%	96,3%	92,9%		
White body wall tiles	6,055	6,786	(0,731)	- 10,8%
%	3,3%	3,8%		
Single-fired floor tiles	0,734	5,893	(5,159)	- 87,5%
%	0,4%	3,3%		



## **Operating costs**

The operating costs of the first nine months of 2005 totaled 160,4 millions euro, up 8.6% over last year (+ 12,8 millions euro). This variation is mainly determined by the following causes:

- the increase in the volume of production, that grew up of about 5% in comparison with 2004;
- the relevant increase in energy costs (electric power and natural gas) whose unit average cost raised up of about 11% on 2004 figures and of about 16% on the third quarter. The negative impact on the cumulated Profit and Loss account has been quantified in 1,4 millions euro, 0,7 millions euro of which generated in the third quarter 2005.
- the increase in rent expenses due to the real estate spin-off carried out at the end of the first half 2004; this increase of about 1,8 millions euro (aligned with the first-half report) is partly offset by the lower depreciation expenses associated with the divested property and by the lower financial charges associated with the decrease debt that was transferred as part of the spin-off.
- the growth of the purchasing prices of ceramic support materials and of the correspondent sea freights connected with their shipping, evaluated of about 5%. This increase is the effect of the variation recorded in the second half of 2004, while in 2005 the changes in unit prices were not particularly significant.
- The increase in personnel costs was mainly linked to the greater number of employees related to a new manufacturing line in the Toano plant: since this line started to work from the end of the first quarter 2005 (as budgeted), the higher costs has not yet been balanced by the expected gains.

## Operating results

The **Gross operating profit** totalled 31,8 millions euro, practically in line with the first 9 months of 2004.

The total amount of **Depreciation and amortization expenses and provisions**, was 9,8 millions euro and are essentially equal to the costs recorded in the same period of the previous year.

So, the **Net operating profit** is confirmed on the same levels of 2004 and amounts in 22,0 millions euro.

The **Financial income and expense** show a positive balance of 1,2 millions euro, while in the same period of 2004 reported a negative balance of 1,7 millions euro.

The improvement in the financial result is due to:

- the significant reduction in the Group's loan capital determined by the mentioned spin-off operation (and the consequent transfer of debts), and by the increase in capital from IPO;
- the trend of euro/dollar exchange rate allowed a partial recovery of the significant losses accounted at the end of 2004, as a consequence of the adjustment of forex balances at the euro/dollar change as of December 31<sup>st</sup> 2004.

**Net profit:** after estimated taxes amounts to 13,5 millions euro, with an increase of **15,1 %** (+1,8 millions Euro) compared with the end of September 2004.

## **Financial and balance sheet highlights**

### ***Balance Sheet***

***(in € / 000)***

	<b>30/9/2005</b>	<b>30/6/2005</b>	<b>31/12/2004</b>
<b>Net Working Capital</b>	<b>94,555</b>	<b>94,300</b>	<b>83,343</b>
<b>Fixed assets</b>	<b>59,941</b>	<b>60,515</b>	<b>57,374</b>
<b>Assets / Liabilities due after year</b>	<b>(12,524)</b>	<b>(12,651)</b>	<b>(10,823)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>141,972</b>	<b>142,164</b>	<b>129,894</b>
<b>Net Financial Position</b>	<b>3,145</b>	<b>6,504</b>	<b>(3,896)</b>
<b>Shareholders' equity</b>	<b>138,827</b>	<b>135,660</b>	<b>133,790</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>141,972</b>	<b>142,164</b>	<b>129,894</b>

### **Investments**

The level of fixed assets increased from the beginning of the year of about 2,5 millions euro; this value represents the balance between the investments (about 11,1 millions euro) and the depreciations of the period (about 8,6 millions euro).

The investments of the first 9 months of 2005 have been mainly addressed to the enhancement and development of production capacity of the Toano plant, and includes also the normal plant replacement cycle aiming at guaranteeing the maintenance and improvement of an efficient production.

### **Net working capital**

The Working Capital level, unchanged from the first half closing 2005, has increased from the beginning of the year of about 11,1 millions euro, mainly linked to the increase in the inventory of finished products.

The higher level of stock derives from the launch of the new manufacturing line of the Toano plant and it is destined to cover the needs expected for the next months.



## Net financial position

### Financial cash flows

<b>Net Financial Position as of 1/1/2005</b>	<b>3,896</b>
Net Profit	13,554
D&A and Provisions	9,827
<b>Internal operating cash flow</b>	<b>23,381</b>
Change in net working capital	(11,212)
Dividend Distribution	(8,090)
Investments	(11,084)
Other movements	(0,036)
<b>Net Financial Position as of 30/6/2005</b>	<b>(3,145)</b>

The Net Financial position reports a negative balance of 3,1 millions euro, with a negative change from the beginning of the year of about 7,0 millions euro.

It has to be marked a partial recovery in the third quarter of about 3,4 millions euro.

## 5. OPERATIONAL OUTLOOK FOR THE GROUP

In the last quarter 2005, it is expected a continuity in trends reported in the last 9 months, both in sales and margins.

## 6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No Noteworthy events took place after the balance sheet date.