



**Panariagroup Industrie Ceramiche S.p.A.**

# **QUARTERLY REPORT AS OF DECEMBER 31<sup>st</sup> , 2005**



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## 1. GROUP STRUCTURE

As of December 31<sup>st</sup>, 2005, the Group was structured as follows:



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

Panariagroup produces and distributes floor and wall ceramic tiles under 4 distinct brand names: Panaria, Lea, Cotto d'Este and Fiordo. All brands are positioned on the high and deluxe market segment, focused 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 Ilhavo, Portugal, 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 it is focused on the Portuguese market.

Maronagrês' product lines are sold under the brand name Margres.

**Novagrês–Indústria de Cerâmica S.A.**, based in Aveiro, Portugal, with a paid-in share capital of Euro 2,500,000.00 is fully owned by Panariagroup following its acquisition in November 2005. The company is specialized in white body wall tiles and in porcelain grès products and is focused on the Portuguese and on the main European markets.

**Lea North America Inc.**, based in 307, East Boulevard, Charlotte, Mecklenburg County, North Carolina, 28203, USA, 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 operates 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>31/12/2005</b>	<b>%</b>	<b>31/12/2004</b>	<b>%</b>
<b>Revenues from sales and services</b>	<b>241,725</b>	<b>92,42%</b>	<b>230,382</b>	<b>96,41%</b>
Changes in inventories of finished products	17,013	6,50%	6,389	2,67%
Addition to fixed assets	0,005	0,00%	0,000	0,00%
Other revenues	2,815	1,08%	2,196	0,92%
<b>Value of Production</b>	<b>261,558</b>	<b>100,00%</b>	<b>238,967</b>	<b>100,00%</b>
Raw, ancillary and consumable materials	(68,599)	-26,23%	(61,440)	-25,71%
Services, leases and rentals	(102,789)	-39,30%	(95,621)	-40,01%
Personnel costs	(43,956)	-16,81%	(40,242)	-16,84%
Changes in inventories of raw materials	0,028	0,01%	0,945	0,40%
Other operating expenses	(2,570)	-0,98%	(3,356)	-1,40%
<b>Cost of production</b>	<b>(217,886)</b>	<b>-83,30%</b>	<b>(199,714)</b>	<b>-83,57%</b>
<b>Gross operating profit</b>	<b>43,672</b>	<b>16,70%</b>	<b>39,253</b>	<b>16,43%</b>
D&A expenses	(12,066)	-4,61%	(11,257)	-4,71%
Provisions and impairments	(2,085)	-0,80%	(2,456)	-1,03%
<b>Net operating profit</b>	<b>29,521</b>	<b>11,29%</b>	<b>25,540</b>	<b>10,69%</b>
Financial income and expense	0,993	0,38%	(3,351)	-1,40%
<b>Pre-tax profit</b>	<b>30,514</b>	<b>11,67%</b>	<b>22,189</b>	<b>9,29%</b>
Income taxes	(12,466)	-4,77%	(6,976)	-2,92%
<b>Net profit for the period</b>	<b>18,048</b>	<b>6,90%</b>	<b>15,213</b>	<b>6,37%</b>

### 3.2 Consolidated Profit and Loss account

(4th Quarter)

(in €000 )

4th QUARTER	31/12/2005	%	31/12/2004	%
<b>Revenues from sales and services</b>	<b>61,490</b>	<b>88,61%</b>	<b>55,790</b>	<b>93,73%</b>
Changes in inventories of finished products	6,128	8,83%	2,719	4,57%
Addition to fixed assets	0,000	0,00%	0,000	0,00%
Other revenues	1,774	2,56%	1,012	1,70%
<b>Value of Production</b>	<b>69,392</b>	<b>100,00%</b>	<b>59,521</b>	<b>100,00%</b>
Raw, ancillary and consumable materials	(17,095)	-24,64%	(15,079)	-25,33%
Services, leases and rentals	(28,326)	-40,82%	(25,766)	-43,29%
Personnel costs	(11,527)	-16,61%	(10,817)	-18,17%
Changes in inventories of raw materials	(0,250)	-0,36%	0,472	0,79%
Other operating expenses	(0,309)	-0,45%	(0,908)	-1,53%
<b>Cost of production</b>	<b>(57,507)</b>	<b>-82,87%</b>	<b>(52,098)</b>	<b>-87,53%</b>
<b>Gross operating profit</b>	<b>11,885</b>	<b>17,13%</b>	<b>7,423</b>	<b>12,47%</b>
D&A expenses	(3,453)	-4,98%	(2,904)	-4,88%
Provisions and impairments	(0,871)	-1,26%	(0,961)	-1,61%
<b>Net operating profit</b>	<b>7,561</b>	<b>10,90%</b>	<b>3,558</b>	<b>5,98%</b>
Financial income and expense	(0,230)	-0,33%	(1,667)	-2,80%
<b>Pre-tax profit</b>	<b>7,331</b>	<b>10,56%</b>	<b>1,891</b>	<b>3,18%</b>

### 3.3 Reclassified Balance Sheet

(in €000 )

	31/12/2005	30/9/2005	31/12/2004
Inventories	101,364	86,113	75,741
Accounts receivable	94,177	89,839	81,157
Other current assets	2,818	4,033	10,774
<b>CURRENT ASSETS</b>	<b>198,359</b>	<b>179,985</b>	<b>167,672</b>
Accounts payable	(61,323)	(55,984)	(58,923)
Other current liabilities	(30,899)	(29,446)	(25,406)
<b>CURRENT LIABILITIES</b>	<b>(92,222)</b>	<b>(85,430)</b>	<b>(84,329)</b>
<b>NET WORKING CAPITAL</b>	<b>106,137</b>	<b>94,555</b>	<b>83,343</b>
Intangible assets	12,640	4,813	4,842
Tangible assets	82,836	55,124	52,528
Equity investments and other financial fixed assets	0,004	0,004	0,004
<b>FIXED ASSETS</b>	<b>95,480</b>	<b>59,941</b>	<b>57,374</b>
Receivables due after the following year	0,207	3,212	2,704
Provisions for termination benefits	(6,835)	(6,674)	(6,237)
Provisions for risks and charges	(8,801)	(7,435)	(4,746)
Other payables due after the year	(2,357)	(1,627)	(2,544)
<b>ASSETS AND LIABILITIES DUE AFTER THE YEAR</b>	<b>(17,786)</b>	<b>(12,524)</b>	<b>(10,823)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>183,831</b>	<b>141,972</b>	<b>129,894</b>

Short term financial assets	(4,221)	(5,620)	(17,117)
Shor term financial debt	40,503	2,827	6,535
<b>NET SHORT TERM FINANCIAL DEBT</b>	<b>36,282</b>	<b>(2,793)</b>	<b>(10,582)</b>
Mid-long term financial debt	4,371	5,938	6,686
<b>NET FINANCIAL POSITION</b>	<b>40,653</b>	<b>3,145</b>	<b>(3,896)</b>
Group Shareholders' Equity	143,178	138,827	133,790
<b>SHAREHOLDERS' EQUITY</b>	<b>143,178</b>	<b>138,827</b>	<b>133,790</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>183,831</b>	<b>141,972</b>	<b>129,894</b>

### 3.4 Net financial position

(in €000)

	31/12/2005	30/09/2005	31/12/2004
Securities	-	-	-
Cash and cash equivalents	(4,221)	(5,620)	(17,117)
<b>Short term financial assets</b>	<b>(4,221)</b>	<b>(5,620)</b>	<b>(17,117)</b>
Due to banks	39,249	1,549	2,636
Financial payables to holding companies	-	-	-
Due to other lenders	1,254	1,278	1,894
<b>Shor term financial debt</b>	<b>40,503</b>	<b>2,827</b>	<b>4,530</b>
Due to banks	1,818	0,932	1,250
Due to other lenders	2,553	5,006	5,441
Due to bondholders	-	-	2,000
<b>Mid-long term financial debt</b>	<b>4,371</b>	<b>5,938</b>	<b>8,691</b>
<b>Net financial position</b>	<b>40,653</b>	<b>3,145</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 24<sup>th</sup>, 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 has not been 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 December 31<sup>st</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**

Following the acquisition of the Portuguese company Novagres, the consolidation scope has changed from September 30<sup>th</sup> 2005 and 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.
- **Novagrês-Indústria de Cerâmica S.A.**, 100% owned, consolidated on a line by line basis

Since Novagres acquisition was finalized in November 30<sup>th</sup> 2005, the Consolidated P/L account includes only one month of the Novagres P/L account.

### 4.3 Executive report on operations

#### Profit and loss analysis

##### *Profit and Loss – Cumulated*

(in € / 000 )

	31/12/2005	%	31/12/2004	%
<b>Revenues from sales and services</b>	<b>241,725</b>	<b>92,42%</b>	<b>230,382</b>	<b>96,41%</b>
<b>Value of Production</b>	<b>261,558</b>	<b>100,00%</b>	<b>238,967</b>	<b>100,00%</b>
<b>Gross operating profit</b>	<b>43,672</b>	<b>16,70%</b>	<b>39,253</b>	<b>16,43%</b>
<b>Net operating profit</b>	<b>29,521</b>	<b>11,29%</b>	<b>25,540</b>	<b>10,69%</b>
<b>Pre-tax profit</b>	<b>30,514</b>	<b>11,67%</b>	<b>22,189</b>	<b>9,29%</b>
<b>Net profit for the period</b>	<b>18,048</b>	<b>6,90%</b>	<b>15,213</b>	<b>6,37%</b>

The 4<sup>th</sup> quarter performances substantially confirm what emerged from 3<sup>rd</sup> quarter results, and show a significant improvement compared to 2004 4<sup>th</sup> quarter.

- **Consolidated net sales:** amounted to **241.7** million Euros, up by **4.9%** over the same period of 2004 ( +3.8 % without Novagres)
- **Gross operating profit** amounting to **43.7** million Euros and **Net operating profit**, amounting to **29.5** million Euros, indicate a remarkable increase over 2004, respectively of **+11.3 %** and of **+15.6%**
- **Pre-tax profit:** was **30.5** million Euros, showing a **37.5%** increase over 2004 (+ 8.3 million Euros).
- **Net profit:** after estimated taxes, totalled **18.0 million** Euros, up **18.6 %** (+2.8 million Euros) over December 2004.

## Revenues

**Net sales** reported a growth rate of **4.9%** going from 230.4 million Euros in 2004 up to 241.7 million Euros at December 31<sup>st</sup> 2005 (+11.3 million Euros); the sales increment includes 2.5 million Euros related to Novagres sales.

In Italy, despite the present economic context, Panariagroup realized an increase in sales of 3%; on External markets, representing the strategic focus of the Panariagroup development, the increase was higher: + 6.6 %.

In particular, US market is confirmed as the first market for Panariagroup, with a growth rate of about 20%.

Even if lower, the 3.1% growth on European market, confirms the appreciation of the Panariagroup products in the more consolidated and traditional areas.

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

**Revenues by geographical area** (gross of customer incentives) (amounts in thousand euros)

<i>Nation</i>	<i>31/12/2005</i>	<i>31/12/2004</i>	<i>var.</i>	<i>%</i>
<b>1</b> ITALY	103.598	100.600	2.998	3,0%
<b>2</b> USA	24.203	20.220	3.983	19,7%
<b>3</b> FRANCE	18.921	17.850	1.071	6,0%
<b>4</b> PORTUGAL	17.128	14.200	2.928	20,6%
<b>5</b> BELGIUM	16.250	16.200	50	0,3%
<b>6</b> GERMANY	14.070	13.620	450	3,3%
<b>7</b> HOLLAND	11.860	11.315	545	4,8%
<b>8</b> SWITZERLAND	4.198	3.818	380	10,0%
<b>9</b> UNITED KINGDOM	3.741	3.383	358	10,6%
<b>10</b> GREECE	3.418	3.262	156	4,8%

First of all, it should be pointed out that all the main markets reported positive trends compared with 2004.

After US market, the best performances have been reached in Portugal and France, representing respectively the third and fourth Panariagroup's markets.

The growth in Portuguese market, also without Novagres sales, reports a significant increase of 10%, confirming the continuous development realized on the domestic market by Margres.

Finally, comparing the year-end results with first 9 months, it has to be underlined the important recovery on Belgium, where the negative trend recorded in the first three quarters (-4,6%) has been completely removed, reporting at the end of the year a level of sales aligned with 2004.

The performance of the 6 brands distributed by Panariagroup can be summarized as follows:



- The **Panaria** brand with an increase of 11.7%, confirms the excellent trend reported in the entire 2005; the more remarkable results refer to the outstanding US market growth and to the good results obtained on the European markets, both underlined by “double-digits” growth rates.



- The **Lea** brand reported a decrease of 5.6%, showing a light recover comparing with the third quarter; the total decrease is mainly due to the decline in sales destined to “big projects” reported on the Asian markets.



- The **Cotto d'Este** brand concluded the last year realizing an increase of 1.5%, strongly confirming the recover observed in the last quarters, and realizing a growth in the 4<sup>th</sup> quarter higher than 13%.



- The **Fiordo** brand confirms itself as the most dynamic brand of Panariagroup for 2005; the total growth of 15% is a consequence of the development realized both on the domestic market (+13.0%) and on the foreign markets (+16.3%), especially in the european area.



- The **Margres** brand, with a growth rate of 13.3%, confirms the quality of the strategy developed on the Portuguese Company, that allowed to realize a further elevation of the Margres products toward the higher segment of the market, with a significant increase in the average prices.



- The new Panariagroup company, **Novagrés**, included in consolidated P/L with reference of only December 2005, realized in the whole year 2005 an increase in sales of 7.6%.

The product types distributed by Panariagroup are mainly two: porcelain gres and white body wall tiles; the single-fired floor tiles (not significant in 2005) refers to products no longer in catalogue.

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

(in thousand euro)

<i>Type</i>	<i>31/12/2005</i>	<i>31/12/2004</i>	<i>var.</i>	<i>%</i>
Porcelain gres	236,893	220,507	16,386	7,4%
%	95,8%	93,6%		
White body wall tiles	9,469	8,572	0,897	10,5%
%	3,8%	3,6%		
Single-fired floor tiles	0,865	6,405	(5,540)	-86,5%
%	0,4%	2,7%		
<b>Total</b>	<b>247,227</b>	<b>235,484</b>	<b>11,743</b>	<b>5,0%</b>

It has to be remarked that, following the acquisition of Novagres, Panariagroup will benefit from the introduction of new lines of wall tiles products: in this segment Novagres is particularly strong (wall tiles represents about 50% of the Novagres sales).

The expected development will be realized both through the contribution of sales directly made by Novagres, and through the study and the introduction of new lines that will be realized in the Portugal plants and destined to the production for the Italian brands.

Together with Novagres sales, we estimate the white body wall tiles will represent in 2006 about 10% of the total sales of Panariagroup.

## **Operating costs**

The operating costs of 2005 totaled 217.9 million Euros, up 9.1% over last year (+ 18.2 million Euros). This variation is mainly determined by the following causes:

- the increase in the volume of production, that grew up of about 7% in comparison with 2004;
- the relevant increase in energy costs (electricity and natural gas) whose unit average cost raised up of about 16% over 2004 figures and of about 29% over the last quarter. The negative impact on the cumulated Profit and Loss account amounted in 2.6 million Euros, generated for 1.2 million Euros in the fourth quarter 2005;
- the growth of the purchasing prices of ceramic support materials and of the correspondent sea freights connected with their shipping, for about 5%.

## Operating results

The **Gross operating profit** totalled 43.7 million Euros, showing a significant increase of 4.4 million Euros compared with 2004 (+11.3%).

The total amount of **Depreciation and amortization expenses and provisions**, was 14.1 million Euros, the light increase is mainly determined by the inclusion of Novagres accounts.

The **Net operating profit** reports a consistent increase of 4.0 million Euros (+15.6%)

The **Financial incomes and expenses** show a positive balance of 0.9 million Euros, while in 2004 reported a negative balance of 3.3 million Euros.

The improvement in the financial result is due to:

- the trend of Euro/Dollar exchange rate that generated significant losses in 2004, and produced a positive effects in 2005.
- the significant reduction in the Group's loan capital mainly determined by the increase in capital from IPO.

**Net profit:** after estimated taxes amounts to 18.0 million Euros, with an increase of **18.6 %** (+2.8 million Euros) compared with 2004 figures.

## **Financial and balance sheet highlights**

### ***Balance Sheet***

***(in € / 000)***

	<b>31/12/2005</b>	<b>30/9/2005</b>	<b>31/12/2004</b>
<b>Net Working Capital</b>	<b>106,137</b>	<b>94,555</b>	<b>83,343</b>
<b>Fixed assets</b>	<b>95,480</b>	<b>59,941</b>	<b>57,374</b>
<b>Assets / Liabilities due after year</b>	<b>(17,786)</b>	<b>(12,524)</b>	<b>(10,823)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>183,831</b>	<b>141,972</b>	<b>129,894</b>
<b>Net Financial Position</b>	<b>40,653</b>	<b>3,145</b>	<b>(3,896)</b>
<b>Shareholders' equity</b>	<b>143,178</b>	<b>138,827</b>	<b>133,790</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>183,831</b>	<b>141,972</b>	<b>129,894</b>

### **Investments**

The level of fixed assets increased from the beginning of the year of about 38.1 million Euros; this value includes entirely the value of the assets of Novagres (about 35.4 million Euros), the investments of the year realized on the other plants (about 14.8 million Euros) and the depreciations of the period (about 12.1 million Euros).

The investments 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 Net Working Capital level, without Novagres (about 11.5 million Euros of NWC) results unchanged from the third quarter closing; the increase from the beginning of the year is about 11.3 million Euros, 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 2006 expected needs.



## Net financial position

### Financial cash flow

(millions of euro)

<b>Net Financial Position as of 1/1/2005</b>	<b>3.9</b>
Net Profit	18.0
D&A and Provisions	14.2
<b>Internal operating cash flow</b>	<b>32.2</b>
Change in net working capital	(11.3)
Dividend Distribution	(8.1)
Investments	(14.8)
Novagres acquisition effect	(42.3)
Other movements	(0.3)
<b>Net Financial Position as of 31/12/2005</b>	<b>(40.7)</b>

The Net Financial position reports a negative balance of 40.7 million Euros, with a negative change from the beginning of the year of about 44.5 million Euros, mainly due to the acquisition of Novagres.

In the last quarter, without Novagres acquisition, has been generated a positive cash flow of about 4.8 million Euros.

## 5. OPERATIONAL OUTLOOK FOR THE GROUP

The positive trend registered in last quarter, represents for Panariagroup a further element confirming its growth target for 2006.

## 6. NOTEWORTHY EVENTS AFTER THE BALANCE SHEET DATE

No Noteworthy events took place after the balance sheet date.