INTERIM REPORT ON OPERATIONS AS AT 30 SEPTEMBER 2019

Panariagroup Industrie Ceramiche S.p.A.

CONTENTS

Panariagroup is an Italian multinational leader in innovation and beauty.

OUR MISSION

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

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

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

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

OUR VALUES

TECHNOLOGICAL LEADERSHIP

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

AESTHETIC QUALITY AND EXCELLENCE

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

RESPONSIBILITY

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

RELIABILITY

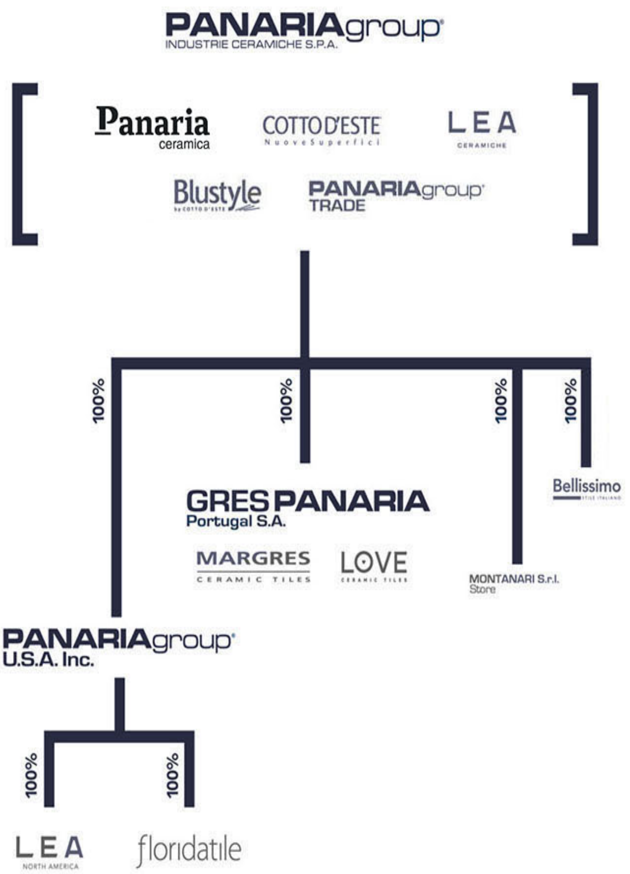
The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

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

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

1. STRUCTURE OF THE GROUP

The structure of the Group as at 30 Septmeber 2019 is as follows:



The Group is organized in 4 main Business Units:

Italy Business Unit

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.

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.

USA Business Unit

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.

Portugal Business Unit

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.

India Business Unit

Panariagroup Industrie Ceramiche S.p.A., with registered office in Ahmedabd (India) , with share capital of INR 188.330.000, controlled by Panariagroup for 99,99%.
The company sells in Asia tile product with brand “Bellissimo”.

2. 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.

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

3.1 Income Statement – Comparison between 30/09/2019 and 30/09/2018

	30/9/2019	%	30/09/2018	%	var.	var. %
Revenues from sales and services	**292.041**	**96,30%**	**280.793**	**95,15%**	**11.248**	**4,01%**
Change in inventories of finifhed products	3.268	1,08%	6.862	2,33%	(3.594)	-52,38%
Other revenues	7.940	2,62%	7.443	2,52%	497	6,68%
Value of Production	**303.249**	**100,00%**	**295.098**	**100,00%**	**8.151**	**2,76%**
Raw, ancillary and consumable materials	(92.011)	-30,34%	(89.540)	-30,34%	(2.471)	2,76%
Services, leases and rentals	(110.686)	-36,50%	(108.630)	-36,81%	(2.056)	1,89%
Personnel costs	(71.942)	-23,72%	(70.576)	-23,92%	(1.366)	1,94%
Other operating expenses	(2.701)	-0,89%	(2.212)	-0,75%	(489)	22,11%
Cost of production	**(277.340)**	**-91,46%**	**(270.958)**	**-91,82%**	**(6.382)**	**2,36%**
Gross operating Profit	**25.909**	**8,54%**	**24.140**	**8,18%**	**1.769**	**7,33%**
D&A expenses	(15.941)	-5,26%	(15.473)	-5,24%	(468)	3,02%
Right of Use Depreciation	(8.299)	-2,74%	(8.015)	-2,72%	(284)	3,54%
Provisions and other impairments	(1.530)	-0,50%	(1.571)	-0,53%	41	-2,61%
Net operating profit	**139**	**0,05%**	**(919)**	**-0,31%**	**1.058**	
Financial income and expense	(2.814)	-0,93%	(2.630)	-0,89%	(184)	
Pre-tax profit	**(2.675)**	**-0,88%**	**(3.549)**	**-1,20%**	**874**	
Income taxes	876	0,29%	1.135	0,38%	(259)	
Net profit (loss) for the period	**(1.800)**	**-0,59%**	**(2.414)**	**-0,82%**	**615**	

(*) IFRS 16 (Leases) came into force on 1 January 2019.
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.

3.2 Income statement – Comparison between Quarter III of 2019 and Quarter III of 2018

	Q3 2019	%	Q3 2018	%	var.
Revenues from sales and services	**90.770**	**100,21%**	**88.560**	**97,13%**	**2.210**
Change in inventories of finifhed products	(2.757)	-3,04%	(177)	-0,19%	(2.580)
Other revenues	2.568	2,84%	2.798	3,07%	(230)
Value of Production	**90.581**	**100,00%**	**91.181**	**100,00%**	**(600)**
Raw, ancillary and consumable materials	(27.633)	-30,51%	(28.207)	-30,94%	574
Services, leases and rentals	(34.573)	-38,17%	(35.080)	-38,47%	507
Personnel costs	(22.277)	-24,59%	(22.101)	-24,24%	(176)
Other operating expenses	(1.018)	-1,12%	(599)	-0,66%	(419)
Cost of production	**(85.501)**	**-94,39%**	**(85.987)**	**-94,30%**	**486**
Gross operating Profit	**5.080**	**5,61%**	**5.194**	**5,70%**	**(114)**
D&A expenses	(5.487)	-6,06%	(5.348)	-5,87%	(139)
Right of Use Depreciation	(2.749)	-3,03%	(2.689)	-2,95%	(60)
Provisions and other impairments	(88)	-0,10%	(103)	-1,01%	15
Net operating profit	**(3.244)**	**-3,58%**	**(2.496)**	**-3,23%**	**(298)**
Financial income and expense	(649)	-0,72%	(887)	-0,97%	238
Pre-tax profit	**(3.893)**	**-4,30%**	**(3.833)**	**-4,20%**	**(60)**
Income taxes	1.280	1,41%	1.333	1,46%	(53)
Net profit (loss) for the period	**(2.614)**	**-2,89%**	**(2.500)**	**-2,74%**	**(113)**

3.3 Income statement: 2019 performance by quarter (in thousands of Euro)

	Q1 12019	%	Q2 2019	%	Q3 2019	%	30/9/2019	%
Revenues from sales and services	**96.357**	**94,43%**	**104.914**	**94,84%**	**90.770**	**100,21%**	**292.041**	**96,30%**
Change in inventories of finifhed products	3.249	3,18%	2.776	2,51%	(2.757)	-3,04%	3.268	1,08%
Other revenues	2.435	2,39%	2.937	2,65%	2.568	2,84%	7.940	2,62%
Value of Production	**102.041**	**100,00%**	**110.627**	**100,00%**	**90.581**	**100,00%**	**303.249**	**100,00%**
Raw, ancillary and consumable materials	(31.172)	-30,55%	(33.206)	-30,02%	(27.633)	-30,51%	(92.011)	-30,34%
Services, leases and rentals	(37.885)	-37,13%	(38.228)	-34,56%	(34.573)	-38,17%	(110.686)	-36,50%
Personnel costs	(24.757)	-24,26%	(24.908)	-22,52%	(22.277)	-24,59%	(71.942)	-23,72%
Other operating expenses	(757)	-0,74%	(926)	-0,84%	(1.018)	-1,12%	(2.701)	-0,89%
Cost of production	**(94.571)**	**-92,68%**	**(97.268)**	**-87,92%**	**(85.501)**	**-94,39%**	**(277.340)**	**-91,46%**
Gross operating Profit	**7.470**	**7,32%**	**13.359**	**12,08%**	**5.080**	**5,61%**	**25.909**	**8,54%**
D&A expenses	(5.154)	-5,05%	(5.300)	-4,79%	(5.487)	-6,06%	(15.941)	-5,26%
Right of Use Depreciation	(2.786)	-2,73%	(2.764)	-2,50%	(2.749)	-3,03%	(8.299)	-2,74%
Provisions and other impairments	(234)	-0,23%	(1.208)	-1,09%	(88)	-0,10%	(1.530)	-0,50%
Net operating profit	**(704)**	**-0,69%**	**4.087**	**3,69%**	**(3.244)**	**-3,58%**	**139**	**0,05%**
Financial income and expense	(815)	-0,80%	(1.350)	-1,22%	(649)	-0,72%	(2.814)	-0,93%
Pre-tax profit	**(1.519)**	**-1,49%**	**2.737**	**2,47%**	**(3.893)**	**-4,30%**	**(2.675)**	**-0,88%**
Income taxes	525	0,51%	(929)	-0,84%	1.280	1,41%	876	0,29%
Net profit (loss) for the period	**(994)**	**-0,97%**	**1.808**	**1,63%**	**(2.614)**	**-2,89%**	**(1.800)**	**-0,59%**

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3.4 Reclassified Balance Sheet

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

	30/09/2019	30/06/2018	31/12/2018	30/9/2018
Inventories	164.236	165.363	159.948	158.519
Receivables from customers	70.064	82.184	64.954	81.024
Other current assets	15.225	15.234	13.819	14.167
CURRENT ASSETS	**249.525**	**262.871**	**238.721**	**253.710**
Payables due to suppliers	(79.422)	(91.870)	(88.342)	(84.928)
Other current liabilities	(31.743)	(31.853)	(28.234)	(33.146)
CURRENT LIABILITIES	**(111.165)**	**(123.723)**	**(116.576)**	**(118.074)**
NET WORKING CAPITAL	**138.360**	**139.148**	**122.145**	**135.636**
Goodwill	8.139	8.139	8.139	8.139
Intangible assets	17.537	17.002	15.553	15.406
Right of Use - Leasing Assets	102.179	104.064	107.631	109.035
Tangible assets	118.964	119.683	124.840	125.195
Equity Investments and other financial assets	258	124	161	239
FIXED ASSETS	**247.077**	**249.012**	**256.324**	**258.014**
Receivables due after following year	571	429	564	543
Liabilities for employee benefits	(4.957)	(5.016)	(5.066)	(5.447)
Provision for risk and charge	(4.532)	(4.318)	(4.506)	(4.609)
Deferred tax assets	7.888	7.266	6.814	5.972
Other payables due after the year	(1.431)	(2.161)	(2.906)	(1.404)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(2.461)**	**(3.800)**	**(5.100)**	**(4.945)**
NET CAPITAL EMPLOYED	**382.976**	**384.360**	**373.369**	**388.705**

Short term financial assets	(13.496)	(4.628)	(16.910)	(3.607)
Short term financial debt	58.704	53.670	34.279	28.942
Mid/Long term financial debt	66.264	62.532	81.102	85.516
NET FINANCIAL DEBT ANTE IFRS16	**111.472**	**111.574**	**98.471**	**110.851**
Short term debt - Leasing Assets	9.974	10.114	10.212	9.133
Long term debt - Leasing Assets	97.606	99.039	102.130	104.411
DEBT FOR LEASING ASSETS	**107.580**	**109.153**	**112.342**	**113.544**
NET FINANCIAL POSITION POST IFRS16	**219.052**	**220.727**	**210.813**	**224.395**
Group Shareholder's Equity	163.924	163.633	162.556	164.310
SHAREHOLDERS' EQUITY	**163.924**	**163.633**	**162.556**	**164.310**
TOTAL SOURCES OF FOUNDS	**382.976**	**384.360**	**373.369**	**388.705**

(*) IFRS 16 (Leases) came into force on 1 January 2019.
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.

3.5 Net Financial Position

	30/09/2019	30/06/2019	31/12/2018	30/09/2018
Cash	(8.496)	(4.627)	(16.910)	(3.607)
Other Current Financial Assets	(5.000)			
Short-term financial assets	**(13.496)**	**(4.627)**	**(16.910)**	**(3.607)**
Due to banks	58.704	53.653	34.138	28.700
Leasing		17	141	242
Short term financial indebtedness	**58.704**	**53.670**	**34.279**	**28.942**
Due to banks	66.264	62.531	81.102	85.474
Leasing				42
Mid/Long financial indebtedness	**66.264**	**62.531**	**81.102**	**85.516**
Net financial indebtedness	**111.472**	**111.574**	**98.471**	**110.851**
Current Financial Debts - Leasing Assets	9.974	10.114	10.212	9.133
Not current Financial Debts - Leasing Assets	97.606	99.039	102.130	104.411
Financial Debts - Leasings	**107.580**	**109.153**	**112.342**	**113.544**
Net financial indebtedness IFRS16	**219.052**	**220.727**	**210.813**	**224.395**

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4. 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 30 September 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.

The accounting principles adopted for the preparation of this interim report on operations do not differ from those applied starting from the date of adoption of the IFRS; furthermore, the accounting data does not contain estimates other than those normally used for the preparation of the annual financial statements.

In relation to the USA companies of the Group, it is noted that no significant differences were found between the local accounting standards (US GAAP) and the accounting principles adopted in the consolidated financial statements (IFRS).

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

On 24/7/2019, the Parent Company acquired full control of Panariagroup India Industrie Ceramiche Pvt Ltd, previously 50% owned.
Due to the time required to comply with the Group's consolidation procedures and the non-materiality of the amounts involved, with particular reference to the contribution of the economic components of the company to the results of this quarterly report as at 30 September 2019, the valuation of the Shareholding has been managed with the Net Equity Method.

All other subsidiaries are consolidated using the global integration method.

4.3 Comments on the operating performance

Summary of Income Statement - Figures as at 30 September 2019
(in thousands of Euro)

	30/09/2019	%	30/09/2018 (*)	%	Change €
Revenues from sales and services	**292,041**	**96.30%**	**280,793**	**95.15%**	**11,248**
Value of production	**303,249**	**100.00%**	**295,098**	**100.00%**	**8,151**
Gross operating profit	**25,909**	**8.54%**	**24,140**	**8.18%**	**1,769**
Net operating profit	**139**	**0.05%**	**(919)**	**-0.31%**	**1,058**
Consolidated net result	**(1,800)**	**-0.59%**	**(2,414)**	**-0.82%**	**615**

(*) IFRS 16 (Leases) came into force on 1 January 2019.
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.

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

- Consolidated **net revenues from sales** totalled **Euro 292.0 million**, marking an increase of **4.0%** compared to September 2018.
- The **gross operating profit** was **Euro 25.9 million** (Euro 24.1 million as at 30 September 2018).
- The **net operating profit** came to **Euro 0.1 million** (loss of Euro 0.9 million as at 30 September 2018).
- The **consolidated net result** was a loss of **Euro 1.8 million** (loss of Euro 2.4 million as at 30 September 2018).

The trend in the first nine months of the year was characterised by an increase in turnover (Euro 11.2 million, +4.0%), accompanied by an improvement in the Gross Operating Profit (Euro 1.8 million, +7.3%).

The increase in turnover is to be considered positive, in particular, if compared with the figure for Italian competitors for whom, in the same period, a slight contraction was noted compared to 2018 (-0.3%, source: Confindustria Ceramica).

The Italian Business Unit (+3.5%) and the US Business Unit (+8.8%) reported growth in turnover, while the Portuguese Business Unit reported a slight decrease (-2.0%).

The Group obtained good growth results in Europe (+4.1%), USA (+7.9%) and Asia (+11.6%), while the turnover in Africa was aligned to 2018, and revenues in decrease were recorded on the Italian market (-1,5%), and in Oceania (-7,8%).

The increase in revenues was accompanied by an improvement in operating margins, as a result, still partial, of the numerous initiatives undertaken on this front.

In a context of stronger competition in the third quarter, the sales strategy was based on an increase in turnover in the USA and the safeguarding of contribution margins in the Italian Business Unit, supported by the application of price lists increased in the spring and applied with strict commercial policies to customers.

After a first quarter characterised by a further tightening of energy tariffs, already at particularly high levels in 2018, in the second and third quarters there was a progressive reduction that should lead us to a substantial alignment with last year's energy costs at the end of the current year.

However, the economic results for the third quarter were lower than we expected, as they were substantially in line with those for the same period of 2018, without affecting the positive variation accumulated in the first six months.

Therefore, the causes of this setback in the process of recovering margins are mainly attributable to the slowdown in production in the Italian Business Unit, aimed at containing inventories and to the dilution of sales of the US Business Unit with higher quantities sold in the Home Centres, at lower profit margins.

In addition, the quarter also includes all the expenses incurred for participation in Cersaie, the most important trade fair in the sector, held in September, where we presented our programme of large formats and large slabs in the new stands for a total of 1,800 square metres of exhibition space, with aesthetic and application innovations that allow us to remain in a highly competitive position with respect to the increasingly aggressive competitors, including the ones from emerging countries.

With reference to the main equity parameters, we note a substantial alignment of the Net Financial Position (prior to IFRS 16) and Net Working Capital with respect to September 2018.

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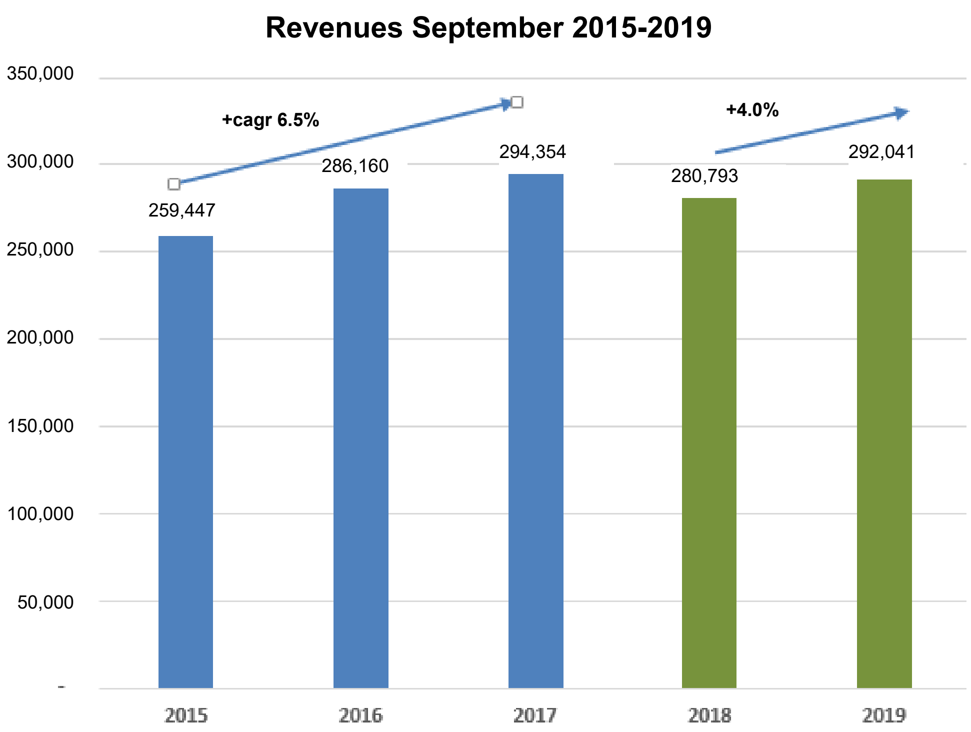
Consolidated Revenues

Net revenues from sales increased by Euro 11.2 million compared to the first 9 months of 2018, with a positive change of 4.0%

The following graph shows the trend in the Group's revenues from 2015 to 2019, for the January-September period; in 2019, the growth process that had been interrupted in the previous year was kick-started again:



Principal markets

European markets grew on the whole by 4.1%, higher than the figure recorded by Italian competitors in the period (+1.6%).
The best performances were achieved in Germany, United Kingdom, Austria and in the Eastern European markets.
Solid growth was recorded again in the Portuguese market, further proof of the consolidated leadership of our company Gres Panaria Portugal on the domestic market.
The impact of the European markets on total revenues was **37%.**

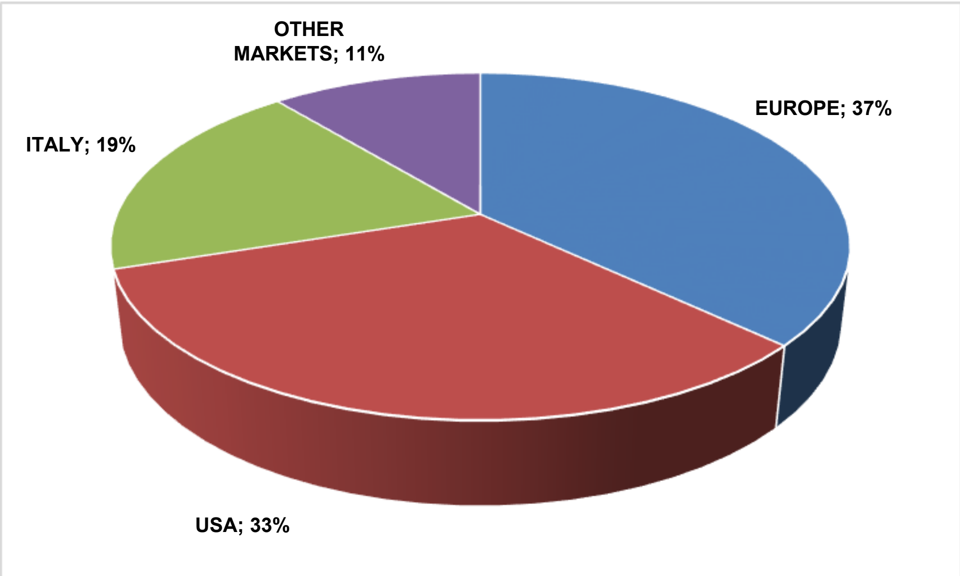
Turnover on the **US market** grew by 7.9% in Euros.
Within the context of a general slowdown in the construction sector and extremely fierce competition, this result is to be viewed in a positive light and attributed to the regional presence that the Group, through its organisations Florida Tile, Panariagroup USA and Lea North America, has established over the years.
For Italian exporters, the result was generally overall, with a drop in volumes of around 6%.
The impact of the US market on total revenues was **33%.**

On the **Italian market,** there was a reduction in turnover of approximately 1.5% in the nine months.

The consumption of ceramic materials in Italy has settled for several years at a level that undergoes minimal variations; over this period of time, however, the Group has always effectively monitored its market shares.
The impact of the Italian market on total revenues was **19%.**

In the **other markets (Asia, Canada, South America, Oceania and Africa**), growth was 4% overall, thanks mainly to the driving force of the Asian markets.
Positive emphasis is to be given to the result, given that Italian competitors in these areas have suffered a decrease of 7%.
The main area of growth was the Far East, with stellar performances in particular in South Korea, Singapore, Hong Kong, Taiwan and Japan.
The impact of the "other markets" on total revenues was **11%.**

The turnover of the Group's **foreign markets** is therefore equal to **81%** of the total, with the share of **non-European markets** equal to **44%** of total turnover.



The geographical balance of turnover is an important asset of the Group and represents a guarantee of stability of turnover, in a general context that sees, from time to time, economic and political instability materialise in different parts of the world.

Performance of the Group Divisions

The **Italian Business Unit** achieved good growth compared to 2018, equal to 3.5%, well above the overall performance of Italian competitors who, according to the recent results of Confindustria Ceramica, achieved slightly lower results compared to the previous year (-0.3%).
The Divisions that stood out in particular were Panariagroup Trade and Panariagroup Private Label.
Panariagroup Trade has been able to achieve a significant increase in turnover in Asian markets, in clear contrast with the sector, accompanied by an equally positive trend in Eastern Europe.
The growth of the Private Label Division confirms and testifies to the excellence and reliability of the Group's production plants.

The **Portuguese Business Unit** recorded a slight decrease in sales (-2%).
The fall in turnover was due to the slow-donw in the French market and to some "peripheral" markets for Gres Panaria Portugal (Brazil, Africa), which are normally characterised, for European exporters, by large orders and not by a constant flow of sales to local distributors, hence with rather fluctuating trends.
The performance on the domestic market, where the Portuguese company is confirmed as the most important ceramics company in the country, was positive.

The **US Business Unit** recorded an increase in sales in dollars of 2.1% and 8.8% in Euros. The final figure reflects different trends among the different distribution channels.
The best results were achieved in the "Home Centre" channel; the strengthening of partnerships with strategic customers in this market segment, which has important development potential for Florida Tile, has allowed a significant increase in sales.
The Branches channel substantially confirmed the sales of the previous year; the direct presence on the territory of these commercial organisations makes it possible to effectively monitor the market shares, which are difficult to attack by competitors who do not have such a widespread sales network.
On the other hand, difficulties continued in the Independent channel, where competitive pressure remained high, both from local producers and from Chinese and Spanish players.
In this regard, it should be noted that at the beginning of September, anti-State-subsidies countervailing duties of more than 100% for Chinese exporters entered into force; in view of the high market share held by these producers, we believe that this measure also opens up important opportunities for recovery for US producers, such as Florida Tile.

Operating results

Gross operating profit came to **Euro 25.9 million**, representing 8.5% of the Value of production (Euro 24.1 million as at 30 September 2018, equal to 8.2% of the Value of production).

The improvement in the operating result is mainly attributable to the Italian Business Unit, thanks to the initiatives put in place to recover the profit margins that had suffered a significant drop in 2018.

In a context of fierce competition. the commercial policies adopted have generated positive results, with an increase in turnover, combined with stable sales prices,

Also on the expenditure front, effective measures have been adopted in all company areas (commercial, logistics, production) that have allowed savings on operating costs.

The rise in energy tariffs, which had heavily impacted the whole of 2018 and the first part of 2019, has also been halted; the contracts signed suggest a significant reduction for the next quarter and for all 2020.

The **Portuguese Business Unit**, although recording a slight decrease in operating margins, maintained a solid level of profitability.

The worsening of the margins is mainly due to the decrease in sales, not enough balanced by savings on the commercial costs side.

The Portuguese BU will also benefit from the expected fall in energy prices in the coming quarters.

The economic result of the third quarter of the European Business Units is, also in 2019, affected by highly significant seasonal factors.
On the one hand, the month of August saw a significant slowdown in both sales and production, while on the other hand, the month of September included the costs for participation in Cersaie in Bologna, the most important trade fair in the sector.

The **US Business Unit** achieved results in line with 2019 and therefore still remains at unsatisfactory levels of profitability.
The result of the American BU was heavily shaped by only partial use of production capacity, until the month of August, which made it possible to significantly reduce the level of inventories.
The important growth of the Home Centres, with a very significant impact on sales volumes, will make it possible, from the fourth quarter of 2019, to ensure optimal use of the Lawrenceburg site, with an expected economic benefit, thanks to the greater absorption of fixed costs.

Net operating profit amounted to Euro 0.1 million (loss of Euro 0.9 million as at 30 September 2018).

Depreciation and amortisation, including that deriving from rights of use and provisions, are substantially in line with 2018, with a total incidence of 8.5% on Value of Production.

The total value of the caption “Financial income and expenses”, equal to 2.8 million Euros includes the Financial expenses, in narrow sense (1.5 million Euros), gain on abroad currencies (0.4 million Euros) and the financial component of “leasing” contracts, in application of IFRS 16, which amounted to Euro 1.7 million.

Their incidence on the Value of Production (of approximately 0.9%) is on contained levels.

The **Consolidated net result** was a loss of Euro 1.8 million (loss of Euro -2.4 million as at 30 September 2018).

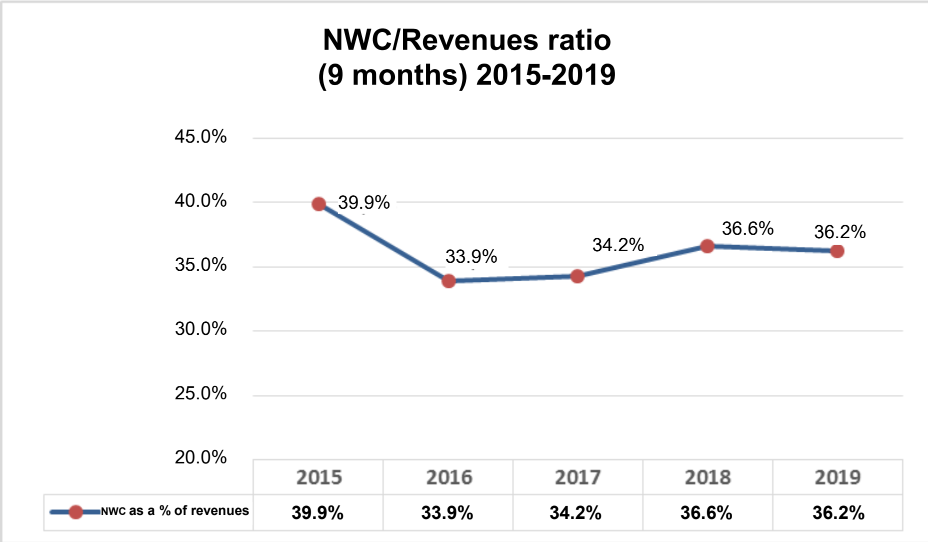
Analysis of the balance sheet
(in thousands of Euro)

	30/09/2019	30/06/2019	31/12/2018	30/09/2018
Net Working Capital	**138,360**	**139,148**	**122,145**	**135,636**
Non-current assets	**247,077**	**249,012**	**256,324**	**258,014**
Assets / Liabilities after 12 months	**(2,461)**	**(3,800)**	**(5,100)**	**(4,945)**
NET CAPITAL EMPLOYED	**382,976**	**384,360**	**373,369**	**388,705**
Net financial debt prior to IFRS 16	**111,472**	**111,574**	**98,471**	**110,851**
Liabilities for leased assets	**107,580**	**109,153**	**112,342**	**113,544**
Equity	**163,924**	**163,633**	**162,556**	**164,310**
TOTAL SOURCES OF FUNDS	**382,976**	**384,360**	**373,369**	**388,705**

Net Working Capital

Net working capital as at 30 September 2019 amounted to Euro 138.4 million, up 2% compared to 30 September 2018, less than the growth in turnover.
The value of inventories increased by 3.6% compared to the same period of the previous year; about half of this increase is due to the higher value of inventories of American BUs, as a result of the appreciation of the dollar, while the remaining part is mainly due to the change in the product mix, which is increasingly oriented towards products with a high unit value (large format slabs, polished products).
On the basis of production planning and sales forecasts, we expect a reduction in inventories by the end of the year and a return to a slightly lower quantity than the one at the end of 2018.
With reference to the other items that make up the Net Working Capital, we continue to record a healthy DSO ratio and a reduced incidence of overdue receivables.

The NWC/Revenues ratio remains very similar to previous years:



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

Non-current assets (net of rights of use and leased assets) decreased by Euro 4.1 million since the beginning of the year, due to the following:

- Investments in the period totalling Euro 9.8 million, of which Euro 5.7 million realised in Italy, Euro 2.0 million in Portugal and Euro 2.1 million in the United States.
- Amortisation and depreciation for the period of Euro 15.9 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 2.0 million.

The level of investments, as planned, is lower than the average of previous years.

In 2020, the Italian Business Unit is expected to implement measures aimed at significantly improving the efficiency of its production facilities, with particular reference to product types that are expanding rapidly.

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 (rents and leases) for the duration of the contract.
It is important to underline 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.

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Net financial debt prior to IFRS 16

The following is a summary of cash flows, net of the effects of the application of IFRS 16 (amounts in millions of Euro):

Condensed cash flow statement - NET OF EFFECTS OF IFRS 16
(in millions of Euro)

	30/09/2019	30/06/2019	31/12/2018	30/09/2018
Financial position - opening balance	**(98.5)**	**(98.5)**	**(99.4)**	**(99.4)**
Profit (loss) for the period prior to IFRS 16	(1.5)	1.0	(4.1)	(2.0)
Amortisation and depreciation	15.9	10.4	21.1	15.6
Net change in provisions	0.1	0.3	(1.4)	(0.6)
Other non-monetary changes	0.5	(0.1)	0.0	0.4
Internal operating cash flow	**15.0**	**11.6**	**15.6**	**13.4**
Change in net working capital and other assets and liabilities	(17.0)	(18.3)	8.3	(6.5)
Distribution of dividends	0.0	0.0	(3.1)	(3.1)
Net investments	(9.8)	(6.4)	(19.2)	(14.4)
Changes in Shareholders' Equity and Exchange diff. from translation of foreign financial statements	(1.2)	0.2	(0.6)	(0.8)
Financial position - closing balance	**(111.5)**	**(111.4)**	**(98.5)**	**(110.8)**

Net financial debt (prior to the application of IFRS 16) is essentially in line with the figure as at 30 September 2018 and the previous quarter. Slight improvement compared to the first quarter of 2019 (Euro -0.9 million).

In the last quarter, we expect a gradual improvement in the NFP due to the expected reduction in Net Working Capital, through the reduction of inventories and the maintenance of a policy of limited investments.

Liabilities for Leased Assets - 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 as at 30 September 2019 was down by Euro 6.0 million compared to 30 September 2018.

Equity

Shareholders' equity rose from Euro 162.6 million as at 31 December 2018 to Euro 163.9 million as at 30 September 2019, marking an increase of Euro 1.3 million.

1. BUSINESS OUTLOOK

The year 2019, for the Italian ceramics sector, was characterised by substantial stability in consumption with a regular trend over the quarters; in respect of this trend, the Group was able to achieve a 4% increase in turnover.

This is certainly a positive figure, considering that 2018 was disappointing, both in terms of revenues and profit margins, and that for 2019 some commercial policy decisions were made, aimed at safeguarding sales prices, which could be risky in a highly competitive context such as the current one.

The increase in turnover, together with these policies, has allowed a recovery of margins, especially in the Italian Business Unit, where additional tools for improving results have been implemented, both in terms of commercial organisation and production and logistics activities.

We also expect benefits for the coming quarters from the trend in energy tariffs, for which we are already confident, on the basis of the contracts signed, that we can achieve significant savings.

The trend of the foreign Business Units, which have not yet achieved the expected improvements, was less satisfactory.

The Portuguese Business Unit, while confirming its significant profitability, has ample margins for improvement.
In particular, the sales performance was not stellar, confirming the leadership on the domestic market, but without reaching the objectives of growth in turnover set for the foreign market; we believe that this is the main key to improving profit margins, convinced that all the conditions are in place, in terms of product, price and sales network, to ensure the success of the sales activities undertaken.

The US Business Unit is probably the one that is competing in the most difficult market context, due to the simultaneous presence of a slight contraction in consumption and intense competition, both from local producers and importers.
Despite this, we are beginning to reap important benefits in the "Home Centres" sales channel, where in the past the presence was very marginal; this result is testament to the credibility that, in particular Florida Tile, has been able to build up in recent years, given that this type of customer requires very high standards of quality and service.
The most important positive impact will soon be evident with the full use of the production capacity of the American plant in Lawrenceburg, whose slowdown in the last two years has heavily penalised the economic results.

With reference to the main balance sheet items, the improvement of the Net Financial Position remains one of our priority objectives, and in this sense the policy of investment containment, strict cost control and careful management of the level of Net Working Capital will continue in the last quarter of 2019.

The improvements achieved are only the first step in the right direction; we are confident that, already in the short-term, signs of a greater recovery in profit margins can become even more evident as a result of the numerous actions undertaken and which have involved all the Business Units of the Group and all the company functions.

We are even more convinced of the possibility of achieving ambitious goals in the medium-term, thanks to the solid foundations on which the Group has been built: an organisation that operates on all major international markets, a logistics and production structure positioned in various locations in Italy and abroad, a wealth of technology and know-how of the highest order, a prestigious competitive position and an experienced and reliable staff.

2. SIGNIFICANT EVENTS AFTER THE CLOSE OF THE QUARTER

No significant events are to be reported.