

## PRESS RELEASE

### **PANARIAGROUP Industrie Ceramiche S.p.A.:**

**The Board of Directors approves the Consolidated Financial Report as of 30<sup>th</sup> September 2018.**

**The trend in EUR/USD exchange rate, the international and national macro-economic and politic uncertainty and the increase in the energy tariffs have influenced the economic performance over the first nine months of 2018:**

- **Consolidated net revenues from sales** totalled **Euro 280.8 million** (Euro 294.3 million as at 30 September 2017)
- The **gross operating profit** was **Euro 14.9 million** (Euro 34.8 million as at 30 September 2017).
- The **net operating loss** came to **Euro 2.1 million** (profit of Euro 17.2 million as at 30 September 2017).

The Board of Directors of Panariagroup Industrie Ceramiche S.p.A., Group specialized in production and distribution of high-end and luxury ceramic material for floor and wall, approved today the Consolidated Financial Report as of 30<sup>th</sup> September 2018, in accordance with the International Financial Reporting Standard (IFRS).

The first nine months of 2018 posted an economic performance, in line with the negative trends already recorded in the first half.

In terms of revenues, the **decrease compared to 2017 was gradually reduced**; the *gap* with respect to the previous year fell from 9.2% recorded at the end of the first quarter, to 7.4% recorded at the end of the second quarter, then reaching the current level of 4.6%.

The overall reduction in revenues in the first nine months, amounting to Euro 13.6 million, was determined by the trend in the EUR/USD exchange rate (Euro 6.3 million) and the actual fall in turnover (Euro 7.3 million).

Net of said effect (based on the same exchange rate), turnover as at 30 September 2018 would have been Euro 287.7 million, marking an actual reduction of 2.5% in sales.

Operating profit margins continued to be impacted by both external and internal factors, which have already been outlined in the half-year financial statements, further aggravated by typical season-related aspects in the third quarter.

One of the most important external factors is the macroeconomic and political uncertainty, at both domestic and global level, which definitely contributed to the general slowdown registered by the entire Italian Ceramic sector.

Another factor which had a significant impact for our sector was the huge rise in energy tariffs, a major cost component for manufactured ceramics products, which gave no indication of slowing in the third quarter of 2018.

## FINANCIAL HIGHLIGHTS

(thousand Euros)

	30 <sup>th</sup> September 2018	30 <sup>th</sup> September 2017	var. €
Revenues from sales and services	280.793	294.354	(13.561)
Value of production	295.098	318.251	(23.153)
Gross operating profit	14.899	34.795	(19.896)
Net operating profit	(2.145)	17.191	(19.336)
Consolidated net result	(2.032)	10.104	(12.136)

"The year 2018 - said **Emilio Mussini, Chairman of Panariagroup** - , is proving to be a difficult one, in which the convergence of negative elements, by both external and internal factors, has caused a standstill in the steady process of growth in revenues and economic results which had characterised our Group in the previous three-year period."

"We already have positive evidence of some factors (exchange rate, introduction of US excise duties on Chinese ceramic imports and increase in our sales prices) which - highlighted **Mussini** - together with a strict control of Net Working Capital will enable us in short terms to improve the financial performance".

## REVENUES

Net revenues from sales dropped by Euro 13.6 million, down from Euro 294.4 million recorded as at 30 September 2017 ( best ever result in the Group's history), to Euro 280.8 million as at 30 September 2018.

The turnover of the Group's foreign markets is therefore equal to 80% of the total, with the share of non-European markets equal to 43% of total turnover.

In terms of revenues in all the main markets of reference, the following trends are highlighted:

**EUROPE** – The European markets, on the whole, registered turnover essentially in line with the 2017 figure, with a similar performance to the average figures of Italian competitors.

The performance in Portugal continues to be extremely positive, where our company Gres Panaria Portugal, on the strength of its leading position, further boosted its market share.

Growth was consolidated on the markets of Eastern Europe, while some important traditional areas, like France, Germany, Belgium and the Netherlands, recorded a slowdown.

The impact of the European markets on total revenues was **37%**.

**UNITED STATES** – The turnover on the US market, expressed in dollars, fell by 4%.

The trends observed in the previous periods were also confirmed, with a decrease in the independent distributors channel, and a slight increase in the directly managed stores channel, while solid improvements were recorded in the "Home Centres" channel.

The slowdown in the independent distributors channel is due to increased competition, especially from Spanish and Chinese exporters; however, a significant change occurred on this front, namely the introduction of excise duty on "Made in China" products, applicable from 24 September 2018 (10%), with a further increase expected on 1 January 2019 (25%). In view of the significant market share these products account for (20% of total US consumption), this presented a huge opportunity for local producers (such as our company Florida Tile) to recover turnover from the main US distributors.

We confirm our confidence in the performance of “Home Centres”, and the strengthening of an important partnership, developed in the first few months of 2018, is starting to bear the first signs of fruit and has enabled a partial recovery in the third quarter, with positive expectations also in the immediate future and the next year.

The stores channel once again confirms the best capacity for coverage and control of the market, thanks to the proximity to the end user.

The impact of the US market on total revenues was **33%**.

**ITALY** – The Italian market bucked the sector trend, with growth of 2%, compared to a decrease of 1.1% for competitors as a whole.

The Group has always been characterised by a widespread presence on the domestic market, which was confirmed in 2018 and has positive expectations for the future.

The impact of the Italian market on total revenues was 20%.

**ASIA, CANADA, SOUTH AMERICA, OCEANIA and AFRICA** - The other markets recorded a reduction of approximately 10%, marking a recovery over the first half (-15%).

Some geographical areas (Middle East and Africa) were hugely influenced by geopolitical tensions, with an immediate impact of the implementation of “large works” (airports, shopping centres, tourist accommodation structures, etc.), which represent the main end market of European ceramics products in these areas.

The Group’s performance is reflected in the results of the Italian sector, which highlights significant decreases in these areas.

The impact of the “other markets” on total revenues was **10%**.

## **OPERATING RESULTS**

Gross operating profit came to Euro 14.9 million, representing 5.1% of the Value of production (Euro 34.8 million as at 30 September 2017, equal to 10.9% of the Value of production).

All Group business units saw a decrease in profit margins, albeit for different reasons.

The Italian Business Unit was adversely impacted by a sales policy, more aggressive in terms of prices, causing a temporary reduction of margins, in the launching of the most recent and distinctive collections, facilitating a faster affirmation in the near future.

Furthermore, the need to keep the level of inventories under control has led to a lower utilization of the plants compared to the previous year, with a natural increase in production costs, to which the significant increase in the energy tariffs has been added.

The Income Statement was also impacted by some organisational and commercial investments, whose positive effects will materialise in the medium-term.

The Portuguese Business Unit continued to record high profit margins, albeit with a decrease compared to the excellent performances in 2017.

The increase in gas tariffs had a considerable impact, but the start-up of the new Aveiro production line and the adjustment of the organisational structure into line with the plan of future growth also contributed to the drop in profit margins.

The biggest cause of the decrease in the profitability of the US Business Unit was the reduction in volumes produced which, although on the one hand made it possible to stabilise inventory levels, on the other, increased the incidence of fixed costs.

The strengthening of the structure in the previous two-year period, targeted at supporting the development programmes, determined, in the presence of a drop in turnover, an increased incidence of these costs; however, it should be noted that important initiatives have already been implemented to cut and optimise these expenses, the effects of which will be evident in the fourth quarter of 2018 and in the next year.

The **net operating loss** came to Euro 2.1 million (profit of Euro 17.2 million as at 30 September 2017).

The **consolidated net result** was a loss of Euro 2.0 million (profit of Euro 10.1 million as at 30 September 2017).

## NET FINANCIAL POSITION

The Net Financial Position at 30<sup>th</sup> September 2018 has negative balance of Euro 110.8 million Euros, worsening by Euro 3 million compared to the previous quarter.

In general, the trend in financial debt in 2018 felt the impacts of the reduction in the operating profit margin, which was not accompanied, for now, by a reduction in Net working capital.

The improvement in the Net Financial Position is one of the main parameters management is targeted at; our objective is to bring the NFP back below Euro 100 million by the end of the year, thanks to the activities in progress to optimise Net working capital and the lower level of investments made.

## EQUITY

Equity has a balance of Euro 168.5 million as at 30 September 2018 (Euro 171.6 million as at 30 September 2017).

## OUTLOOK FOR GROUP OPERATIONS

We believe that the macro-economic uncertainty will persist in the next months, together with the increase in the energy tariffs and the increased competitive pressure on all the international markets.

Moreover, the competitive pressure applied in the United States by Chinese and Spanish exporters will, in our opinion, taper off; as regards the former, thanks to the introduction of significant excise duty on imports and, for the latter, we believe that the aggressive pricing policy applied in order to regain the lost market shares in the previous years is a phenomenon in the process of absorption. This represents a very important opportunity for local producers in the United States, such as our company Florida Tile, that have the possibility of offering more competitive prices, in light of the application of excise duty and motivated by a logistic service that assumes a more crucial value.

The negative trend in the dollar against the euro, which had characterised the first half of 2018, already recorded a clear reversal, with the current exchange rate sitting at USD/EUR 1.14, with a positive impact expected on the revenues and profit margins of the Group.

In order to cushion the higher cost of gas and electricity, that affects also our competitors, we will introduce the new sale price lists with effectiveness from January 2019.

Competition has certainly grown on the international markets, but we believe that the decision to maintain the coverage of the market shares in 2018, to the detriment of profit margins, may be advantageous in terms of the recovery of volumes, through a coordinated multi-brand business organization, and, therefore, more intense use of the production capacity.

In addition to this strategy to protect the positions acquired, some time ago, the Group undertook a process targeted at enhancing the sales offering, more diversified and recognisable for the individual Group brands, and at expanding the coverage of the distribution channels, through specialised structures dedicated to the specific needs of the different segments.

As regards internal efficiency, in the production and services sector, we will work with greater determination to cut costs and improve processes and, in that sense, the 2019 Budget will incorporate this objective in the main guidelines.

The marked internationalisation of the organisational structure and of commercial distribution, the cutting-edge technology, the know-how of our personnel and the credibility built up over the years, are all strong values we can rely on to kick-start our growth process.

## **Declaration of the Financial Reporting Manager**

The Financial Reporting Manager, Dott. Damiano Quarta, declares, pursuant to paragraph 2 of Article 154 bis of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

Attachments: Consolidated Balance Sheet and Income Statement

## **PANARIAGROUP**

*Panariagroup Industrie Ceramiche S.p.A. is a multinational Italian group, worldwide leader in the production and distribution of ceramic tiles for floors and walls. With more than 1,700 employees, 10,000 customers, 6 production facilities (3 in Italy, 2 in Portugal and 1 in the United States), and a turnover of 385 million € in 2017, Panariagroup is one of the main producers of flooring and wall covering ceramic tiles for the upper and luxury segment of the market. Specialised in the production of porcelain and laminated stoneware, the group has focused on the top level and luxury segments of the market that it caters for by means of nine brands: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, which fulfil the needs of diverse customers that however share the same concern for the aesthetic and technical quality of products. Panariagroup is an international-scale reference point, counting on production facilities in Italy, Portugal, United States, India and an extensive sales network in over 130 countries all over the world.*

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Finale Emilia, 14<sup>th</sup> November 2018

## CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

	30-Sept-2018	30-June-2018	31-Dec-2017	30-Sept-2017
Inventories	158,519	158,663	151,480	149,408
Accounts Receivable	81,024	91,182	79,142	86,119
Other current assets	14,167	12,733	12,044	11,970
<b>CURRENT ASSETS</b>	<b>253,710</b>	<b>262,578</b>	<b>242,666</b>	<b>247,497</b>
Account Payables	(84,928)	(93,910)	(83,198)	(84,163)
Other current liabilities	(32,717)	(31,654)	(28,980)	(31,401)
<b>CURRENT LIABILITIES</b>	<b>(117,645)</b>	<b>(125,564)</b>	<b>(112,178)</b>	<b>(115,564)</b>
<b>NET WORKING CAPITAL</b>	<b>136,065</b>	<b>137,014</b>	<b>130,488</b>	<b>131,933</b>
Goodwill	8,139	8,139	8,139	8,139
Intangible assets	15,406	15,124	14,239	14,340
Tangible assets	125,195	125,948	126,005	121,342
Equity Investments and other financial assets	0,239	0,260	0,300	0,446
<b>FIXED ASSETS</b>	<b>148,979</b>	<b>149,471</b>	<b>148,683</b>	<b>144,267</b>
Receivables due after following year	0,543	0,541	0,537	0,635
Provision for termination benefits	(5,447)	(5,437)	(5,531)	(5,752)
Provision for risk and charge	(4,609)	(4,682)	(4,569)	(5,222)
Deferred tax assets	5,808	4,594	4,633	3,039
Other payables due after the year	(2,025)	(3,223)	(3,531)	(2,623)
<b>ASSET AND LIABILITIES DUE AFTER THE YEAR</b>	<b>(5,730)</b>	<b>(8,207)</b>	<b>(8,461)</b>	<b>(9,923)</b>
<b>NET CAPITAL EMPLOYED</b>	<b>279,314</b>	<b>278,279</b>	<b>270,710</b>	<b>266,277</b>
Short term financial assets	(3,607)	(17,839)	(7,156)	(11,179)
Short term financial debt	28,942	37,438	24,662	40,345
<b>NET SHORT TERM FINANCIAL DEBT</b>	<b>25,335</b>	<b>19,599</b>	<b>17,506</b>	<b>29,166</b>
Mid-Long term financial debt	85,516	88,254	81,895	65,445
<b>NET FINANCIAL POSITION</b>	<b>110,851</b>	<b>107,853</b>	<b>99,401</b>	<b>94,611</b>
Group Shareholder's Equity	168,463	170,426	171,309	171,666
<b>SHAREHOLDERS' EQUITY</b>	<b>168,463</b>	<b>170,426</b>	<b>171,309</b>	<b>171,666</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>279,314</b>	<b>278,279</b>	<b>270,710</b>	<b>266,277</b>



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	30-Sept-2018	%	30-Sept-2017	%	var.
<b>Revenues from sales and services</b>	<b>280,793</b>	<b>95,15%</b>	<b>294,354</b>	<b>92,49%</b>	<b>(13,561)</b>
Change in inventories of finished products	6,862	2,33%	15,176	4,77%	(8,314)
Other revenues	7,443	2,52%	8,721	2,74%	(1,278)
<b>Value of Production</b>	<b>295,098</b>	<b>100,00%</b>	<b>318,251</b>	<b>100,00%</b>	<b>(23,153)</b>
Raw, ancillary and consumable materials	(89,540)	-30,34%	(88,714)	-27,88%	(0,826)
Services, leases and rentals	(117,871)	-39,94%	(120,441)	-37,84%	2,570
Personnel costs	(70,576)	-23,92%	(71,596)	-22,50%	1,020
Changes in inventories of raw materials	(2,212)	-0,75%	(2,705)	-0,85%	0,493
<b>Cost of production</b>	<b>(280,199)</b>	<b>-94,95%</b>	<b>(283,456)</b>	<b>-89,07%</b>	<b>3,257</b>
<b>Gross operating profit</b>	<b>14,899</b>	<b>5,05%</b>	<b>34,795</b>	<b>10,93%</b>	<b>(19,896)</b>
D&A expenses	(15,473)	-5,24%	(16,423)	-5,16%	0,950
Provisions and other impairments	(1,571)	-0,53%	(1,181)	-0,37%	(0,390)
<b>Net operating profit</b>	<b>(2,145)</b>	<b>-0,73%</b>	<b>17,191</b>	<b>5,40%</b>	<b>(19,336)</b>
Financial income and expense	(0,858)	-0,29%	(2,632)	-0,83%	1,774
<b>Pre-tax profit</b>	<b>(3,003)</b>	<b>-1,02%</b>	<b>14,559</b>	<b>4,57%</b>	<b>(17,562)</b>
Income taxes estimated	0,971	0,33%	(4,455)	-1,40%	5,426
<b>Net profit (loss) for the period</b>	<b>(2,032)</b>	<b>-0,69%</b>	<b>10,104</b>	<b>3,17%</b>	<b>(12,136)</b>



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	Q3 2018	%	Q3 2017	%	Var
<b>Revenues from sales and services</b>	<b>88,560</b>	<b>97,13%</b>	<b>87,953</b>	<b>91,47%</b>	<b>0,607</b>
Change in inventories of finished products	(0,177)	-0,19%	5,160	5,37%	(5,337)
Other revenues	2,798	3,07%	3,038	3,16%	(0,240)
<b>Value of Production</b>	<b>91,181</b>	<b>100,00%</b>	<b>96,151</b>	<b>100,00%</b>	<b>(4,970)</b>
Raw, ancillary and consumable materials	(28,207)	-30,94%	(27,706)	-28,82%	(0,501)
Services, leases and rentals	(38,183)	-41,88%	(37,841)	-39,36%	(0,342)
Personnel costs	(22,101)	-24,24%	(22,331)	-23,22%	0,230
Changes in inventories of raw materials	(0,599)	-0,66%	(0,998)	-1,04%	0,399
<b>Cost of production</b>	<b>(89,090)</b>	<b>-97,71%</b>	<b>(88,876)</b>	<b>-92,43%</b>	<b>(0,214)</b>
<b>Gross operating profit</b>	<b>2,091</b>	<b>2,29%</b>	<b>7,275</b>	<b>7,57%</b>	<b>(5,184)</b>
D&A expenses	(5,348)	-5,87%	(5,808)	-6,04%	0,460
Provisions and other impairments	(0,103)	-0,11%	(0,097)	-0,10%	(0,006)
<b>Net operating profit</b>	<b>(3,360)</b>	<b>-3,68%</b>	<b>1,370</b>	<b>1,42%</b>	<b>(4,730)</b>
Financial income and expense	(0,296)	-0,32%	(0,535)	-0,56%	0,239
<b>Pre-tax profit</b>	<b>(3,656)</b>	<b>-4,01%</b>	<b>0,835</b>	<b>0,87%</b>	<b>(4,491)</b>
Income taxes estimated	1,169	1,28%	(0,311)	-0,32%	1,480
<b>Net profit (loss) for the period</b>	<b>(2,487)</b>	<b>-2,73%</b>	<b>0,524</b>	<b>0,54%</b>	<b>(3,011)</b>

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	Q1 2018	%	Q2 2018	%	Q3 2018	%	30-Sept-2018	%
<b>Revenues from sales and services</b>	<b>89,984</b>	<b>92,65%</b>	<b>102,249</b>	<b>95,74%</b>	<b>88,560</b>	<b>97,13%</b>	<b>280,793</b>	<b>95,15%</b>
Change in inventories of finished products	5,167	5,32%	1,872	1,75%	(0,177)	-0,19%	6,862	2,33%
Other revenues	1,968	2,03%	2,677	2,51%	2,798	3,07%	7,443	2,52%
<b>Value of Production</b>	<b>97,119</b>	<b>100,00%</b>	<b>106,798</b>	<b>100,00%</b>	<b>91,181</b>	<b>100,00%</b>	<b>295,098</b>	<b>100,00%</b>
Raw, ancillary and consumable materials	(28,776)	-29,63%	(32,557)	-30,48%	(28,207)	-30,94%	(89,540)	-30,34%
Services, leases and rentals	(37,934)	-39,06%	(41,754)	-39,10%	(38,183)	-41,88%	(117,871)	-39,94%
Personnel costs	(23,817)	-24,52%	(24,658)	-23,09%	(22,101)	-24,24%	(70,576)	-23,92%
Changes in inventories of raw materials	(0,749)	-0,77%	(0,864)	-0,81%	(0,599)	-0,66%	(2,212)	-0,75%
<b>Cost of production</b>	<b>(91,276)</b>	<b>-93,98%</b>	<b>(99,833)</b>	<b>-93,48%</b>	<b>(89,090)</b>	<b>-97,71%</b>	<b>(280,199)</b>	<b>-94,95%</b>
<b>Gross operating profit</b>	<b>5,843</b>	<b>6,02%</b>	<b>6,965</b>	<b>6,52%</b>	<b>2,091</b>	<b>2,29%</b>	<b>14,899</b>	<b>5,05%</b>
D&A expenses	(5,049)	-5,20%	(5,076)	-4,75%	(5,348)	-5,87%	(15,473)	-5,24%
Provisions and other impairments	(0,170)	-0,18%	(1,298)	-1,22%	(0,103)	-0,11%	(1,571)	-0,53%
<b>Net operating profit</b>	<b>0,624</b>	<b>0,64%</b>	<b>0,591</b>	<b>0,55%</b>	<b>(3,360)</b>	<b>-3,68%</b>	<b>(2,145)</b>	<b>-0,73%</b>
Financial income and expense	(1,045)	-1,08%	0,483	0,45%	(0,296)	-0,32%	(0,858)	-0,29%
<b>Pre-tax profit</b>	<b>(0,421)</b>	<b>-0,43%</b>	<b>1,074</b>	<b>1,01%</b>	<b>(3,656)</b>	<b>-4,01%</b>	<b>(3,003)</b>	<b>-1,02%</b>
Income taxes estimated	0,126	0,13%	(0,324)	-0,30%	1,169	1,28%	0,971	0,33%
<b>Net profit (loss) for the period</b>	<b>(0,295)</b>	<b>-0,30%</b>	<b>0,750</b>	<b>0,70%</b>	<b>(2,487)</b>	<b>-2,73%</b>	<b>(2,032)</b>	<b>-0,69%</b>

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Share Capital Euro 22.677.645,50 - R.E.A. 248427  
Taxpayer ID and VAT No. 01865640369