

PRESS RELEASE

PANARIAGROUP – REVENUES GROWTH IN FIRST QUARTER 2019

Panariagroup Industrie Ceramiche S.p.A.: the Board of Directors approved the Consolidated Quarterly Report as of 31st March 2018.

- **Consolidated net revenues from sales totalled Euro 96.4 million, with an increase of 7.2% compared to March 2018.**
- **The gross operating profit was Euro 7.5 million, while it was 9.3 million in March 2018.**
- **The net operating loss was Euro 0.7 million.**
- **The consolidated net result was a loss of Euro 1.0 million.**

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 Quarterly Report as of 31st March 2019, in accordance with the International Financial Reporting Standard (IFRS).

Revenues in the first quarter of 2019 were positive, with an increase of 7.2%, including a favourable USD/ EUR exchange rate; at constant rate, the increase would be 4.3%.

Even net of the dollar effect, sales growth was significant, taking into account the general performance of Italian competitors who, according to data released by Confindustria Ceramica, achieved an increase of 1.4% in the same period.

The European Business Units achieved a significant improvement in sales (+5.0% for the Italian Business Unit and +9.7% for the Portuguese Business Unit), while the US Business Unit achieved a lower growth of 0.6% in US dollars.

The growth in revenues affected, albeit differently, all the main markets covered by the Group; in particular, we point out the excellent performance of the Asian area and the significant increase in the European area.

The higher turnover has not been accompanied, at the moment, by an equally positive trend in margins; in fact, the first quarter of 2019 is still affected by most of the negative effects that had heavily affected the year 2018: the increase in energy costs, the reduced manufacturing activity in US and the non-profitable conditions of sale.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(thousand Euros)

Nature	31 st March 2018	31 st March 2019	Var. €
Revenues from sales and services	89,984	96,357	6,373
Value of production	97,119	102,041	4,922
Gross operating profit	9,249	7,470	-1,779
Net operating profit	1,141	-0,704	-1,845
Consolidated net profit	-0,422	-0,994	-0,572

(*) Effective as of 1 January 2019, IFRS 16 ("Leases") came into force.

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.

"The first quarter of 2019 shows a valuable increase in sales that suggests an inversion of the last year trend, influenced by an uncertain economic situation and by some exogenous factors— said **Emilio Mussini, Chairman of Panariagroup**".

"Aware that the recovery of margins will require some months - continued **Mussini** - we firmly believe that the initiatives taken will be successful and will allow us to obtain positive and gradually improved economic results."

REVENUES

Net revenues from sales rose by Euro 6.4 million, up from Euro 90.0 million recorded as at 31 March 2018, to Euro 96.4 million as at 31 March 2019.

After the drop in 2018, the development of turnover, which had characterised the previous three years, has restarted.

EUROPE - On European markets, growth of over 5% was achieved, a positive result, if we take as a reference the figure of Italian operators, equal to +2.1%.

Once again, the positive trend on the Portuguese market is confirmed,

The results in Germany, Austria, Switzerland, Great Britain and Spain are also worthy of note, while there was a setback in Russia.

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

US - Turnover on the US market increased by 2.2% in US dollars, which, due to the appreciation of the US currency against the Euro (+7.6%), led to a positive change in our currency of around 10%.

The outlook for the sector in the USA remains positive, as confirmed by the trend in building permits, which generally anticipates the trend in consumption by a few months.

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

ITALY - In an Italian market that is still not very dynamic and in which the overall turnover of the ceramic sector was substantially in line with the first quarter of 2018, the Group recorded a positive change of 1.8%. The impact of the Italian market on total revenues was 20%.

ASIA, CANADA, SUD AMERICA, OCEANIA and AFRICA - The other markets recorded an excellent growth of 14.5%, well above the average figure for the sector (+3%), driven above all by the positive start on Asian markets, both in the Middle East and in the Far East. The impact of the “other markets” on total revenues was 10%.

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.

OPERATING RESULTS

Gross operating profit came to Euro 7.5 million, representing 7.3% of the Value of Production (Euro 9.2 million as at 31 March 2018, equal to 9.5% of the Value of Production).

The main reasons of the margin decrease, are, by Business Unit, the following.

The Italian Business Unit, while benefiting from the positive contribution of a higher turnover, was characterised by a queue of the commercial conditions applied in 2018, that, together with a further increase in gas prices, brought to a decrease in margins.

The Portuguese Business Unit was able to maintain profitability in absolute terms in line with the first quarter of 2018, even with the very negative impact of the worsening of the gas prices.

The US Business Unit suffered a decline in profitability, mainly as a result of a slow manufacturing activity, with an increase in production costs and of a different distribution of turnover among the distribution channels, with a higher incidence of sales characterised by lower margins.

The **net operating loss** came to Euro 0.7 million (profit of Euro 1.1 million as at 31 March 2018).

Depreciation and amortisation, including that deriving from Rights of use and provisions, are in line with 2018, with a total incidence of 8.0% on Value of Production.

“Financial charges” went from Euro 1.7 million in the first quarter of 2018 to Euro 0.8 million in the first quarter of 2019, an improvement of Euro 0.9 million, entirely attributable to the result of foreign exchange management.

The Consolidated Net result was a loss of Euro 1.0 million (loss of Euro 0.4 million as at 31 March 2018).

NET FINANCIAL POSITION – BEFORE IFRS 16

The Net Financial Position (before IFRS 16) was in line is substantially in line with the figure for the first quarter of 2018.

Leasing Liabilities - 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.

OUTLOOK FOR GROUP OPERATIONS

Despite the negative economic result, the first quarter of 2019 has shown some important positive signs, which suggest a reversal of the trend compared to the difficult 2018.

The growth in volumes sold in the European Business Units, which exceeded the data available on the sector's performances, is evidence of the appreciation of the commercial offer of Panariagroup and Gres Panaria Portugal in the markets and, albeit with due caution, instils us with confidence for the continuation of the year.

In relation to the main factors penalising the margin in the first quarter of 2019, we have good reason to believe that the situation may improve in the coming months.

Firstly, there should be an increase in sales margins, as a result of the entry into force of the 2019 price lists, of further pricing actions on specific product categories and the full application of the directives to the sales force aimed at safeguarding the contribution margin.

In addition, a reduction in gas tariffs is expected in the second half of the year, which should gradually allow for a recovery of the cost gap that is already heavily impacting the first half of 2019.

We expect the production capacity of the Lawrenceburg plant to be used more intensively in the second half of 2019, thanks to the positive effects of the significant increase in turnover in the “Home Centre” channel.

We will also continue to pay attention to the containment of operating and structural costs, with targeted action on situations considered to be less efficient and productive, as will the activities for the optimisation and improvement of personnel management.

The hoped-for improvement in margins, together with the reduction in the incidence of Net Working Capital on Revenues, and the planned containment of investments, should jointly contribute to a progressive improvement in Net Financial Debt.

Declaration of the Financial Reporting Manager

The Financial Reporting Manager, 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.

IFRS 16 Balance Sheet and Income Statement Reconciliation

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Finale Emilia, 15th May 2019

CONSOLIDATED BALANCE SHEET (thousands Euro)

	31 Mar 2019	31 Dec 2018 (*)	31 Mar 2018 (*)
Inventories	163.823	159.948	155.288
Accounts Receivable	75.261	64.954	84.902
Other current assets	16.623	13.819	12.895
CURRENT ASSETS	255.707	238.721	253.085
Account Payables	(90.096)	(88.342)	(81.595)
Other current liabilities	(29.562)	(28.450)	(29.885)
CURRENT LIABILITIES	(119.658)	(116.792)	(111.480)
NET WORKING CAPITAL	136.049	121.929	141.605
Goodwill	8.139	8.139	8.139
Intangible assets	16.025	15.553	14.439
Tangible assets	123.169	124.840	123.849
Right of Use of Assets	115.411	118.196	126.863
Equity Investments and other financial assets	84	161	300
FIXED ASSETS	262.828	266.889	273.590
Receivables due after following year	542	564	529
Provision for termination benefits	(5.024)	(5.067)	(5.540)
Provision for risk and charge	(4.261)	(4.506)	(4.671)
Deffered tax assets	7.758	7.031	5.288
Other payables due after the year	(2.777)	(3.139)	(3.204)
ASSET AND LIABILITIES DUE AFTER THE YEAR	(3.762)	(5.117)	(7.598)
NET CAPITAL EMPLOYED	395.115	383.701	407.597
Short term financial assets	(8.187)	(18.092)	(14.679)
Short term financial debt	39.480	35.461	43.153
Mid-Long term financial debt	81.216	81.102	83.566
NET FINANCIAL POSITION BEFORE IFRS 16 APPLICATION	112.509	98.471	112.040
Lease Obligations IFRS 16	121.611	124.333	132.224
NET FINANCIAL POSITION AFTER IFRS 16 APPLICATION	234.120	222.804	244.264
Net Income (Loss)	(994)	(4.604)	(422)
Group Shareholders' Equity	161.989	165.501	163.755
SHAREHOLDERS' EQUITY	160.995	160.897	163.333
TOTAL SOURCES OF FOUNDS	395.115	383.701	407.597

CONSOLIDATED INCOME STATEMENT (thousands Euro)

	31 mar 2019	%	31 mar 2018 (*)	%	var.
Revenues from sales and services	96.357	94,43%	89.984	92,65%	6.373
Change in inventories of finished products	3.249	3,18%	5.167	5,32%	(1.918)
Other revenues	2.435	2,39%	1.968	2,03%	467
Value of Production	102.041	100,00%	97.119	100,00%	4.922
Raw, ancillary and consumable materials	(31.172)	-30,55%	(28.776)	-29,63%	(2.396)
Services, leases and rentals	(37.885)	-37,13%	(34.528)	-35,55%	(3.357)
Personnel costs	(24.757)	-24,26%	(23.817)	-24,52%	(940)
Other operating expenses	(757)	-0,74%	(749)	-0,77%	(8)
Cost of production	(94.571)	-92,68%	(87.870)	-90,48%	(6.701)
Gross operating profit	7.470	7,32%	9.249	9,52%	(1.779)
D&A expenses	(5.154)	-5,05%	(5.049)	-5,20%	(105)
Right of Use depreciation	(2.786)	-2,73%	(2.889)	-2,97%	103
Allowance and Provisions	(234)	-0,23%	(170)	-0,18%	(64)
Net operating profit	(704)	-0,69%	1.141	1,17%	(1.845)
Financial income and expense	(815)	-0,80%	(1.743)	-1,79%	928
Pre-tax profit	(1.519)	-1,49%	(602)	-0,62%	(917)
Income taxes estimated	525	0,51%	180	0,19%	345
Net profit (loss) for the period	(994)	-0,97%	(422)	-0,43%	(572)

(*) Effective as of 1 January 2019, IFRS 16 ("Leases") came into force.

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.

INCOME STATEMENT - IFRS 16 RECONCILIATION

(million Euros)

	31/3/2019	IFRS 16	31/3/2019
Gross Operating Margin	4,2	3,3	7,5
D&A expenses	(5,2)	(2,8)	(7,9)
Allowance and Provisions	(0,2)	0,0	(0,2)
Net Operating Margin	(1,2)	0,5	(0,7)
Financial income and expense	(0,2)	(0,6)	(0,8)
Pre-tax profit	(1,4)	(0,1)	(1,5)
Income taxes estimated	0,5	0,0	0,5
Net profit (loss) for the period	(0,9)	(0,1)	(1,0)

	31/3/2018	IFRS 16	31/3/2018
Gross Operating Margin	5,8	3,4	9,2
D&A expenses	(5,0)	(2,9)	(7,9)
Allowance and Provisions	(0,2)	0,0	(0,2)
Net Operating Margin	0,6	0,5	1,1
Financial income and expense	(1,0)	(0,7)	(1,7)
Pre-tax profit	(0,4)	(0,2)	(0,6)
Income taxes estimated	0,1	0,1	0,2
Net profit (loss) for the period	(0,3)	(0,1)	(0,4)

BALANCE SHEET - IFRS 16 RECONCILIATION (million Euros)

	31/3/2019			31/12/2018			31/3/2018		
	PRE	IFRS 16 ADJ	POST	PRE	IFRS 16 ADJ	POST	PRE	IFRS 16 ADJ	POST
NET WORKING CAPITAL	136,4	(0,3)	136,0	122,2	(0,2)	121,9	142,1	(0,5)	141,6
FIXED ASSETS	147,4	115,4	262,8	148,7	118,2	266,9	146,7	126,9	273,6
ASSET AND LIABILITIES DUE AFTER THE YEAR	(4,0)	0,3	(3,8)	(5,3)	0,2	(5,1)	(7,7)	0,1	(7,6)
NET CAPITAL EMPLOYED	279,8	115,4	395,1	265,5	118,2	383,7	281,2	126,4	407,6
NET FINANCIAL POSITION BEFORE IFRS 16 APPLICATION	112,5	0,0	112,5	98,5	0,0	98,5	112,0	0,0	112,0
Lease Obligations IFRS 16	0,0	121,6	121,6	0,0	124,3	124,3	0,0	132,2	132,2
NET FINANCIAL POSITION AFTER IFRS 16 APPLICATION	112,5	121,6	234,1	98,5	124,3	222,8	112,0	132,2	244,3
SHAREHOLDERS' EQUITY	167,2	(6,3)	161,0	167,1	(6,2)	160,9	169,1	(5,8)	163,3
TOTAL SOURCES OF FUNDS	279,8	(6,3)	395,1	265,5	(6,2)	383,7	281,2	(5,8)	407,6