PANARIAgroup®

Half Yearly Consolidated Financial Statement 2017

Panariagroup Industrie Ceramiche S.p.A.

Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

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Review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Panariagroup Industrie Ceramiche S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of consolidated financial position, the consolidated income statements, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the cash flows statement and the related explanatory notes of Panariagroup Industrie Ceramiche S.p.A. and its subsidiaries (the "Panariagroup Group") as of June 30, 2017. The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Panariagrup Group as of June 30, 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Bologna, August 4, 2017

EY S.p.A.
Signed by: Gianluca Focaccia, Partner

This report has been translated into the English language solely for the convenience of international readers

Panariagroup Industrie Ceramiche

DIRECTORS' INTERIM REPORT

Panariagroup is a leading Italian multinational company in innovation and beauty.

OUR MISSION

We are specialised in producing and selling ceramic coverings in order 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 customers' high expectations of wellness and aesthetics, in both buildings and architecture.

OUR VALUES

TECHNOLOGICAL LEADERSHIP

We constantly invest in research, technologies and cutting edge facilities to meet all architecture and interior design requirements with innovative solutions capable of being an industry reference point.

AESTHETIC QUALITY AND EXCELLENCE

We diligently research industrial excellence, from the qualities of raw materials to process efficiency, in order to obtain products that combine absolute aesthetic value with extremely high technical performances.

RESPONSIBILITY

Our central focus is always people and the quality of life, with safe, environmentally sustainable products, by operating with the utmost respect for those who work with us.

RELIABILITY

The guarantee of a Group that, from family roots in the ceramics district of Sassuolo to listing on the Milan Stock Exchange, has grown into a formidable international company, that operates all over the world while retaining an Italian core.

Panariagroup is one of the main producers of ceramics for floors and walls. It employs 1,600 staff, has 10,000 customers and 6 production facilities (3 in Italy, 2 in Portugal and 1 in the United States) and has a presence through its extensive and widespread sales network in more than 120 countries worldwide.

Specialised in the production of porcelain and laminated grès stoneware, the Group is positioned in the high-end and deluxe market segment through its nine commercial brands: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, able to satisfy a diversified range of customers and attentive to the technical and aesthetic quality of its products.

1. STRUCTURE OF THE GROUP

The structure of the Group as of 30 June 2017 is as follows:

The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena (Italy), with share capital of Euro 22,677,645.50.

Panariagroup produces and sells ceramic tiles for floors and walls under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. All of these brands focus on the high-end and deluxe market segment and mainly sell grès porcelain stoneware product lines, both in Italy and abroad.

Gres Panaria Portugal S.A., based 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.

Panariagroup USA Inc., based 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., based 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 its own distribution network located mainly on the East coast.

Lea North America LLC., based 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.

Montanari Ceramiche S.r.l., based in Finale Emilia, Modena (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

The Group also has an investment in a Joint Venture Company, headquartered in the Indian state of Gujarat. This company is held 50% by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

2. DIRECTORS AND OFFICERS

Board of Directors

Full Name	Office
Mussini Emilio	Chairman of the Board and Managing Director
Mussini Paolo	Deputy Chairman and Managing Director
Mussini Andrea	Deputy Chairman
Pini Giuliano	Managing Director
Mussini Giuliano	Director
Mussini Silvia	Director
Prodi Daniele	Director
Bazoli Francesca	Independent Director
Bonfiglioli Sonia	Independent Director
Ferrari Tiziana	Independent Director

Board of Statutory Auditors

Full Name	Office
Marchese Sergio	Chairman of the Board of Statutory Auditors
Ascari Piergiovanni	Standing Auditor
Muserra Francesca	Standing Auditor

Independent Auditors

EY S.p.A.

Directors' Interim Report on the 2017 Condensed Half-yearly Consolidated Financial Statements

Results and significant events in the first half of 2017

Dear Shareholders,

Over the first half of 2017, global trade has generally grown, also thanks to the ongoing recovery in the economies of emerging countries.
GDP recorded a significant increase both in Russia and in Brazil, with a reversion trend from recession. Also India's economy reported a recovery.
Growth continued positively in China, to a greater extent than expected, while growth in the United States and United Kingdom was below estimates.
The current economic expansion in the Euro area is generally showing signs of constant growth, which is generally wide-spreading to all economic sectors.
The monetary policy implemented by the ECB fostered new investments, driven by very favourable loan terms and improved profitability of companies. The increase in employment, which also benefited from reforms of the labour market, supports real income available to households, with a consequent increase in private consumption.
In the first half of 2017, a significant recovery in real estate purchases and sales was reported above all in industrialised countries. The building sector is still oriented to the renewal of the existing real estate properties, albeit new buildings have slightly increased.
The Italian ceramics industry, during the first half of 2017, reported a growth of 4.2%.

In the presence of a favourable macroeconomic context, the Group continued to grow, achieving excellent results in the first half of the year.

A summary of the economic results is shown below:

- consolidated **net revenues** amounted to Euro 206.8 million, an increase of Euro 13.0 million compared to the first half of 2016 (+6.7%).
- **gross operating profit** amounted to Euro 27.9 million, an improvement of Euro 6.5 million (+30.4%).
- **net operating profit** amounted to Euro 16.2 million, an increase of Euro 5.2 million (+47.3%).
- **consolidated net profit** amounted to Euro 9.6 million, an increase of Euro 4.2 million (+76.8%).

The growth in revenues from sales (+6.7%) not only reflects the overall increase in ceramics consumption, but is above all the evidence of the consolidated commercial capacity of Panariagroup to successfully compete on the main world markets.

Margins, already positive in the first half of 2016, further increased with a significant improvement in results. The positive change in Gross Operating Profit (Euro +6.5 million, equal to +30.4%) and in Net Profit (Euro +4.2 million, equal to +76.8%) should be highlighted.

The improvement in profitability especially benefited from the significant growth of margins in the Italian Business Unit that, also benefiting from the numerous reorganization operations carried out over the last two years, obtained excellent economic results, while allowing for higher-than-expected performance in the half year.
Meanwhile, excellent performance in the Portuguese Business Unit is also reported, and the US Business Unit confirmed positive economic results.

In addition, the main equity and financial indicators (Net Working Capital and Net Financial Position) confirmed their excellent levels, once again evidence of the Group’s strength.

Significant events

Growth in turnover, compared to 2016, determined a greater need for finished products, covered by a higher use of all production plants of the Group. While in the Italian and US plants it is still possible to increase production volumes, the two Portuguese plants have reached their full capacity of use.

We have therefore decided to invest in Portugal, by enlarging the production capacity of the plant in Aveiro, for which the building of a new complete line for porcelain grès tiles (press, dryer, glazing machine, oven, selection line) is scheduled and is due to be completed by the end of the year.
The decision of strengthening the Portuguese production pole reflects the remarkable development witnessed by Gres Panaria Portugal over the last few years, and aims at further enhancing the strategic function of this manufacturing pole for all Panariagroup Brands.

With reference to the US Business Unit, it is worth noting that new areas within the National Distribution Center have now become operative. This operation completed the huge strengthening programme concerning logistics and production started in 2016.

As part of an IT integration project for all Group Business Units, through the adoption of one single platform (SAP), it is noted that the three US companies Florida Tile, Panariagroup USA and Lea North America started to use the new software in January 2017.
The development programme now provides for a gradual extension to the Portuguese and Italian Business Units.

Investments, totalling Euro 3.8 million and aimed at technological upgrading and increased efficiency, were made in the Italian facilities. Moreover, operations aimed at reducing electricity consumption and improving safety at workplace are worth reporting.

With regard to estimated investments for the 2017-2018 period in the Italian Business Unit, the management is thoroughly assessing the opportunities offered by the tax incentive called "Industria 4.0", focused on fostering the technological upgrading of plants within an inter-connection viewpoint. The outcome of these analyses might bring forward, by some months, already budgeted investments, thus reflecting the recovery of a good growth that now seems consolidated.

Review of the Group's results as of 30 June 2017

Income statement - Comparison between 30 June 2017 and 30 June 2016

(in thousands of Euro)

	30 Jun 2017	%	30 Jun 2016	%	var.	var. %
Revenues from sales and services	**206,838**	**92.95%**	**193,795**	**97.11%**	**13,043**	**6.73%**
Change in inventories of finished products	10,016	4.50%	45	0.02%	9,971	
Other revenues	5,683	2.55%	5,724	2.87%	(41)	-0.72%
Value of Production	**222,537**	**100.00%**	**199,564**	**100.00%**	**22,973**	**11.51%**
Raw, ancillary and consumable materials	(61,081)	-27.45%	(56,359)	-28.24%	(4,722)	8.38%
Services, leases and rentals	(82,600)	-37.12%	(72,881)	-36.52%	(9,719)	13.34%
Personnel costs	(49,265)	-22.14%	(46,876)	-23.49%	(2,389)	5.10%
Changes in inventories of raw materials	(1,707)	-0.77%	(2,064)	-1.03%	357	-17.30%
Cost of production	**(194,653)**	**-87.47%**	**(178,180)**	**-89.28%**	**(16,473)**	**9.25%**
Gross operating profit	**27,884**	**12.53%**	**21,384**	**10.72%**	**6,500**	**30.40%**
D&A expenses	(10,615)	-4.77%	(9,135)	-4.58%	(1,480)	16.20%
Provisions and other impairments	(1,084)	-0.49%	(1,264)	-0.63%	180	-14.24%
Net operating profit	**16,185**	**7.27%**	**10,985**	**5.50%**	**5,200**	**47.34%**
Financial income and expense	(2,461)	-1.11%	(2,018)	-1.01%	(443)	21.95%
Pre-tax profit	**13,724**	**6.17%**	**8,967**	**4.49%**	**4,757**	**53.05%**
Income taxes	(4,144)	-1.86%	(3,549)	-1.78%	(595)	16.77%
Net profit (loss) for the period	**9,580**	**4.30%**	**5,418**	**2.71%**	**4,162**	**76.82%**

Income statement - 2017 Performance by quarter
(in thousands of Euro)

	Q1	%	Q2	%	30 June 2017	%
Revenues from sales and services	**99,272**	**92.84%**	**107,566**	**93.04%**	**206,838**	**92.95%**
Change in inventories of finished products	5,307	4.96%	4,709	4.07%	10,016	4.50%
Other revenues	2,344	2.19%	3,339	2.89%	5,683	2.55%
Value of Production	**106,923**	**100.00%**	**115,614**	**100.00%**	**222,537**	**100.00%**
Raw, ancillary and consumable materials	(30,229)	-28.27%	(30,852)	-26.69%	(61,081)	-27.45%
Services, leases and rentals	(38,901)	-36.38%	(43,699)	-37.80%	(82,600)	-37.12%
Personnel costs	(24,674)	-23.08%	(24,591)	-21.27%	(49,265)	-22.14%
Changes in inventories of raw materials	(882)	-0.82%	(825)	-0.71%	(1,707)	-0.77%
Cost of production	**(94,686)**	**-88.56%**	**(99,967)**	**-86.47%**	**(194,653)**	**-87.47%**
Gross operating profit	**12,237**	**11.44%**	**15,647**	**13.53%**	**27,884**	**12.53%**
D&A expenses	(5,113)	-4.78%	(5,502)	-4.76%	(10,615)	-4.77%
Provisions and other impairments	(370)	-0.35%	(714)	-0.62%	(1,084)	-0.49%
Net operating profit	**6,754**	**6.32%**	**9,431**	**8.16%**	**16,185**	**7.27%**
Financial income and expense	(720)	-0.67%	(1,741)	-1.51%	(2,461)	-1.11%
Pre-tax profit	**6,034**	**5.64%**	**7,690**	**6.65%**	**13,724**	**6.17%**
Income taxes	(2,009)	-1.88%	(2,135)	-1.85%	(4,144)	-1.86%
Net profit (loss) for the period	**4,025**	**3.76%**	**5,555**	**4.80%**	**9,580**	**4.30%**

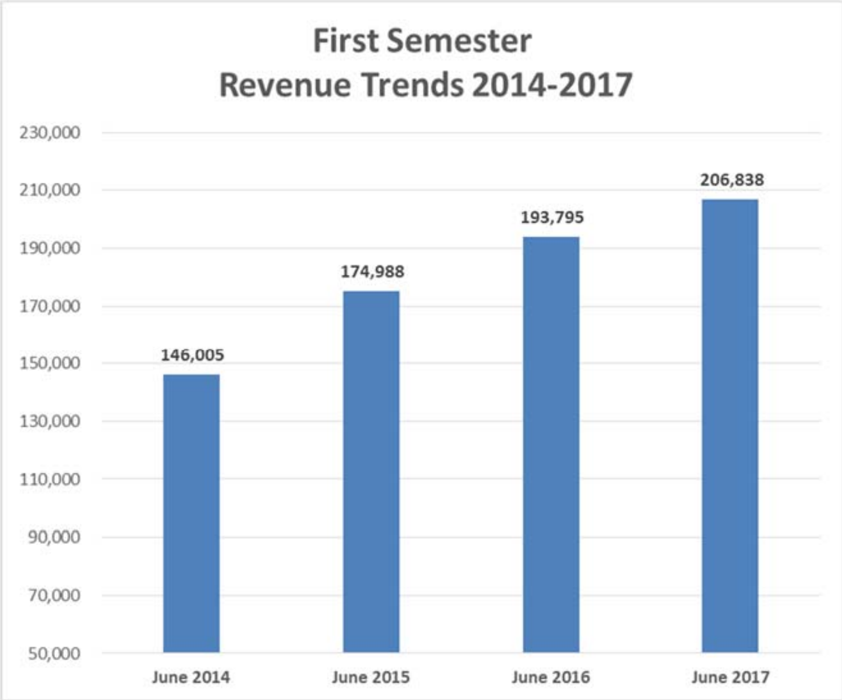
Income statement - Comparison between 2nd quarter of 2017 and 2nd quarter of 2016
(in thousands of Euro)

	Q2 2017	%	Q2 2016	%	Var	Var. %
Revenues from sales and services	**107,566**	**93.04%**	**102,279**	**98.50%**	**5,287**	**5.17%**
Change in inventories of finished products	4,709	4.07%	(1,534)	-1.48%	6,243	
Other revenues	3,339	2.89%	3,087	2.97%	252	8.15%
Value of Production	**115,614**	**100.00%**	**103,833**	**100.00%**	**11,781**	**11.35%**
Raw, ancillary and consumable materials	(30,852)	-26.69%	(29,061)	-27.99%	(1,791)	6.16%
Services, leases and rentals	(43,699)	-37.80%	(38,167)	-36.76%	(5,532)	14.49%
Personnel costs	(24,591)	-21.27%	(23,346)	-22.48%	(1,245)	5.33%
Changes in inventories of raw materials	(825)	-0.71%	(1,195)	-1.15%	370	-30.96%
Cost of production	**(99,967)**	**-86.47%**	**(91,769)**	**-88.38%**	**(8,198)**	**8.93%**
Gross operating profit	**15,647**	**13.53%**	**12,064**	**11.62%**	**3,583**	**29.70%**
D&A expenses	(5,502)	-4.76%	(4,675)	-4.50%	(827)	17.69%
Provisions and other impairments	(714)	-0.62%	(827)	-0.80%	113	-13.66%
Net operating profit	**9,431**	**8.16%**	**6,562**	**6.32%**	**2,869**	**43.72%**
Financial income and expense	(1,741)	-1.51%	(867)	-0.83%	(874)	100.81%
Pre-tax profit	**7,690**	**6.65%**	**5,695**	**5.48%**	**1,995**	**35.03%**
Income taxes	(2,135)	-1.85%	(2,180)	-2.10%	45	-2.06%
Net profit (loss) for the period	**5,555**	**4.80%**	**3,515**	**3.39%**	**2,040**	**58.04%**

Consolidated revenues

Revenues from sales grew by over Euro 13 million (+6.7%) overall, from Euro 193.8 million as of 30 June 2016 to Euro 206.8 million as of 30 June 2017.

The improvement, over the last four years, highlighted the steady growth trend in total sales reported at Group level:



Main reference markets

The Group obtained an improvement in results, compared to the first half of 2016, in all the main areas. In particular, the best performance was reported by the European market.

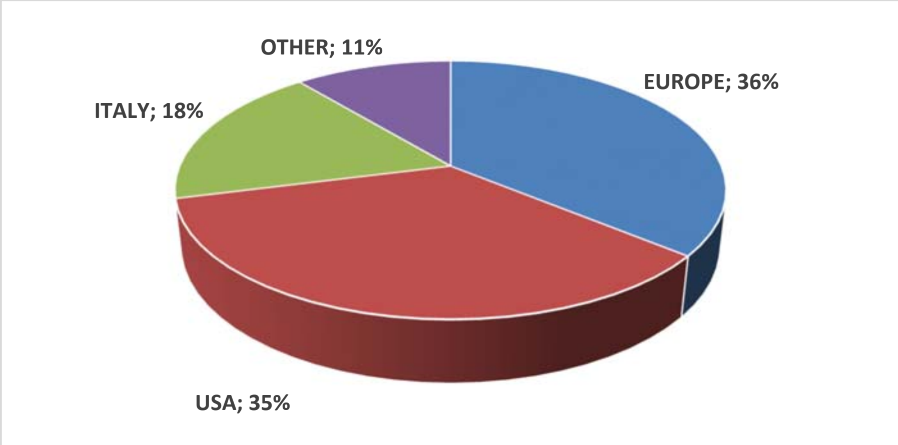
In **Europe**, in fact, the Group recorded a double-digit increase in sales (+11%). This growth was mostly due to the markets in Germany, Great Britain and Portugal. The remarkable results obtained in the Eastern European areas are also worth mentioning.
We wish to highlight once more the exceptional trend that has been reported in Portugal over the last few years, where we are continuously increasing our market share, strong of an acknowledged leadership.
European markets accounted for 36% of total revenues.

The turnover obtained on the **USA market** is further growing, with a positive 4% change, compared to the same period of the previous year.
The good estimates on the trend of ceramics consumption, inferable from the main macro-economic indicators, are also confirmed by the growth in imports of ceramic tile products, which is an evidence of a dynamic US market.
We deem that, with its strong presence on the territory through its US Business Unit, the Group has all the instruments to fully seize this positive market trend.
The US market accounted for 35% of total revenues.

The **Italian market** reported 5% improvement in results, compared to the first half of 2016, slightly better than Italian competitors (+ 2%).
In the ceramics sector, a greater trust is felt and more evident recovery signs can be seen, albeit still limited to the restructuring segment. We still consider Italy an important market for the Group and will still strive to obtain further market shares.
The Italian market's share of total sales was 18%.

As regards **other markets** (Asia, Canada, South America, Oceania and Africa), the Group confirmed excellent results, with a growth in turnover equal to 8%, compared to the first half of 2016.
The best performance was reported in the Asian area and Oceania, mostly thanks to the positive contribution of the commercial activities of Panariagroup Trade.
The Group’s presence in these areas is still growing towards an even more balanced distribution of sales on a global scale.
The other markets account for 11% of total sales.

The strong presence of Panariagroup in all the main international markets is still a key factor for the Group's competitiveness and the search for new trade development opportunities is still one of our major targets.



Performance of the Group's Divisions

While strengthening the good signs already highlighted last year, the **Italian Business Unit** achieved 10% growth, with positive results in all the main areas, confirming its strong recovery.
The Panariagroup Trade organisations, Cotto d'Este / Blustyle and the Private Label Division (Third-Party), particularly stood out thanks to their dynamism and commercial development. The positive impact resulting from the important reorganisation activity carried out in Italy in the last two years is even more evident.

The **Portuguese Business Unit** continues to stand out for its excellent growth rates. We are also confirming that a significant growth in sales is foreseen over the next few months as well.
The strong development that is marking Gres Panaria Portugal, combined with the strategic importance of the Portuguese production pole for the Group, fully justify the investment programmes that envisage the expansion of the production capacity at the plant in Aveiro.

The **US Business Unit** reported a positive growth in sales; in addition the performance of the US market over the next months is commonly estimated with optimism.
The recent weakening of the US currency, while, on the one hand, is unfavourable to the Group due to the unfavourable US dollar/Euro exchange, on the other hand it reinforces our competitiveness, as American producer, compared to other companies that export to the United States.

Operating results

Gross Operating Profit came to **Euro 27.9 million**, representing 12.5% of the Value of Production (Euro 21.4 million as of 30 June 2016, or 10.7% of the Value of Production), with growth of Euro 6.5 million (+30.4%).

Growth in turnover, accompanied by a reduction in production costs, determined an important positive result in economic terms.

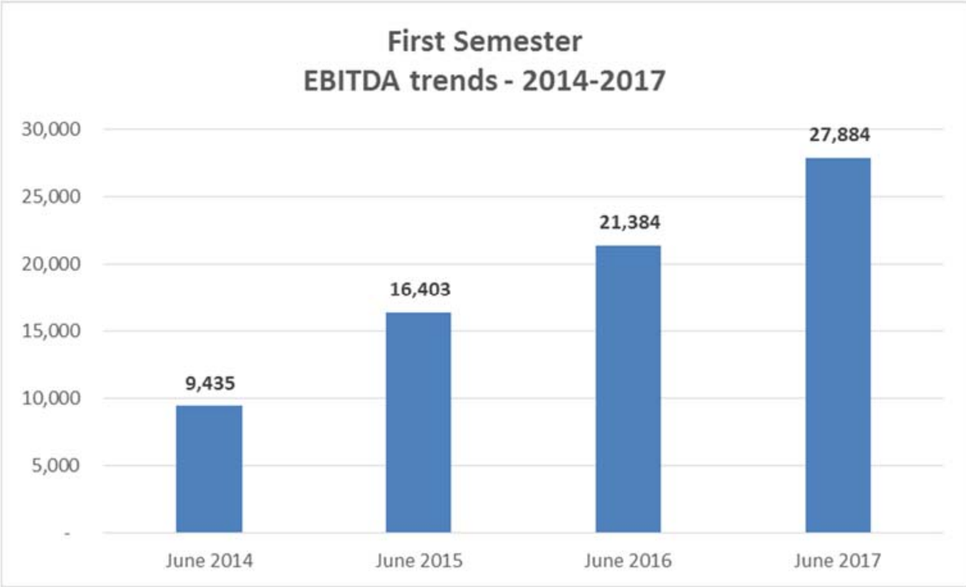
This rise in sales is fully attributable to an increase in traded volumes, with a stable average sales price.

The growth in volumes also led to a further benefit, in terms of greater use of production capacity, with consequent reduction in unit production costs.

Moreover, the implementation of major industrial investments, made in the last two years, permitted to have significant benefits, while obtaining a more efficient production performance.

In addition, the European business units benefited from a reduction in energy prices, compared to 2016, which supplied a positive contribution to the improvement of the Group's results. This important saving was achieved thanks to the careful planning of procurement, which led to the subscription of multi-annual agreements, in the years when energy costs were at minimum levels.

The following chart is the clear expression of the regular and constant growth of the Gross Operating Profit, over the last four years:



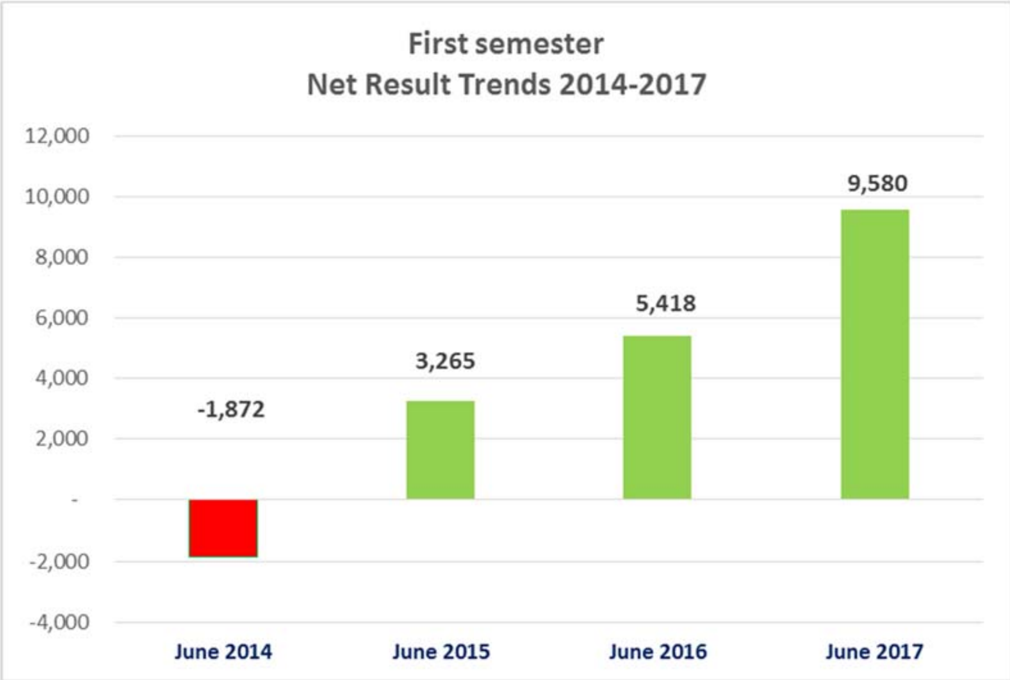
Net operating profit amounted to Euro 16.2 million (Euro 11.0 million as of 30 June 2016), with a positive change of Euro 5.2 million.

Amortisation/depreciation in 2017 amounted to Euro 10.6 million, up by Euro 1.5 million compared to the first half of 2016, due to the relevant investments made over the last 12 months, whose impact on the Value of Production was equal to 4.8%, substantially unchanged compared to last year and at lower levels with respect to sector results.

Financial expenses remain at low levels, with an impact of 1% on total sales. The current pricing terms of loans, combined with a careful management of treasury, permitted us to obtain financial resources at very low interest rates.

The **Consolidated Net Result** was a profit of Euro 9.6 million (Euro 5.4 million as of 30 June 2016).

The chart showing the performance of the Net Result highlights the positive trend over the last four years:



Summary of the Reclassified Consolidated Balance sheet
(in thousands of Euro)

	30 June 2017	31 Mar 2017	31 Dec 2016	30 June 2016
Inventories	145,945	144,473	140,173	137,507
Accounts Receivable	97,389	91,143	79,903	95,228
Other current assets	12,076	12,640	13,657	10,720
CURRENT ASSETS	**255,410**	**248,256**	**233,733**	**243,455**
Account Payables	(84,907)	(82,239)	(83,647)	(82,839)
Other current liabilities	(31,815)	(28,661)	(28,097)	(28,869)
CURRENT LIABILITIES	**(116,722)**	**(110,900)**	**(111,744)**	**(111,708)**
NET WORKING CAPITAL	**138,688**	**137,356**	**121,989**	**131,747**
Goodwill	8,139	8,139	8,139	8,139
Intangible assets	14,251	14,052	13,967	8,071
Tangible assets	117,432	119,002	119,595	112,975
Equity Investments and other financial assets	48	75	82	6
FIXED ASSETS	**139,870**	**141,268**	**141,783**	**129,191**
Receivables due after following year	653	775	777	599
Provision for termination benefits	(5,794)	(5,793)	(5,913)	(5,740)
Provision for risk and charge	(4,951)	(4,787)	(4,725)	(4,459)
Deferred tax assets	2,993	4,745	5,405	7,923
Other payables due after the year	(2,473)	(2,929)	(3,386)	(6,278)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(9,572)**	**(7,989)**	**(7,842)**	**(7,955)**
NET CAPITAL EMPLOYED	**268,986**	**270,635**	**255,930**	**252,983**

Short term financial assets	(7,273)	(7,156)	(16,995)	(13,753)
Short term financial debt	41,147	41,325	36,505	53,666
NET SHORT TERM FINACIAL DEBT	**33,874**	**34,169**	**19,510**	**39,913**
Mid-Long term financial debt	61,458	61,103	64,202	49,703
NET FINANCIAL POSITION	**95,332**	**95,272**	**83,712**	**89,616**
Group Shareholders' Equity	173,654	175,363	172,218	163,367
SHAREHOLDERS' EQUITY	**173,654**	**175,363**	**172,218**	**163,367**
TOTAL SOURCES OF FOUNDS	**268,986**	**270,635**	**255,930**	**252,983**

As required by Consob Communication DEM/6064293 of 28 July 2006, a reconciliation between the above consolidated reclassified balance sheet and the related financial statement format is attached to the directors' report.

Net working capital

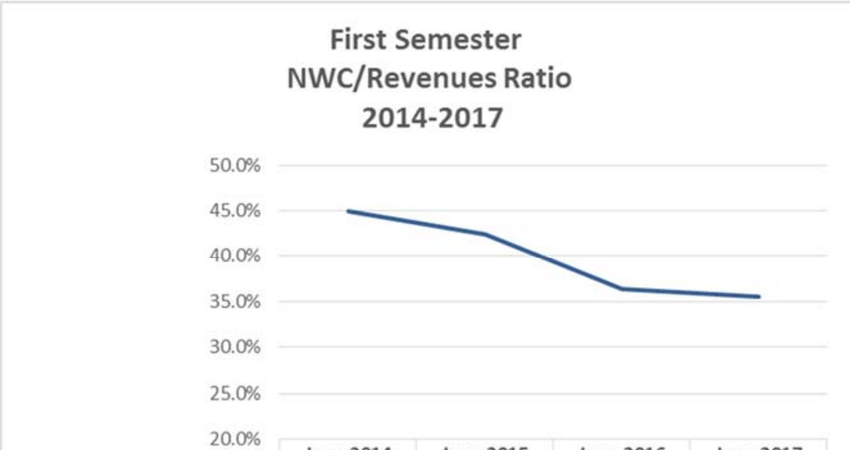
Net working capital grew by Euro 6.9 million, equal to 5.2%, compared to 30 June 2016, partially in line with the growth in total sales.

Changes in inventories, compared to the first half of 2016, are in line with changes in revenues, while maintaining the turnover ratio of stocks unaltered.

The increase in receivables from customers is less significant (+2%) and only partially reflects the higher sales. The effect is an improved "average collection times" index, a trend that is consolidating, also thanks to a better economic context, as well as the Group's effective management of payment collection.

Payables due to suppliers reported 3% growth, lower than the trend of production volumes; this trend is justified by significant payments made to plant suppliers, during the first half of the year, in relation to the large investments of previous year.

The capacity of maintaining the change in Net Working Capital below the increase in total sales, permitted to further improve the NWC / Revenues ratio that was 35.6% at the end of the six-month period.



	June 2014	June 2015	June 2016	June 2017
% NWC on Revenues	45.0%	42.4%	36.4%	35.6%

The ratio between the NWC at the reporting date and Revenues in the last 12 months was considered in the calculation.

In this development phase, we deem that maintaining the control of Net Working Capital levels is of key importance. To this purpose, the constant monitoring of stocks and the careful scheduling of production play a particularly important role.

Non-current assets

Non-current assets have decreased by Euro 1.9 million since the beginning of the year.

The main changes are:

- investments equal to Euro 12.5 million, which include Euro 5.2 million in the Italian Business Unit, Euro 3.1 million in the Portuguese Business Unit, and Euro 1.2 million in the US Business Unit.
- lower value of fixed assets of the US sub-consolidation expressed in Euro, because of the depreciation of the dollar since the end of 2016, of Euro 3.8 million.
- depreciation and amortisation for the period, equal to Euro 10.6 million.

In the second half of the year, higher investments are planned compared to the first half. In particular, the most important work, already started, is the latest and complete line for the plant in Aveiro. Thanks to its outstanding characteristics in terms of productivity, compared to the previous line, this line, which will replace the already existing one, will ensure higher production capacity and a reduction in production unit costs.

It can be also foreseen that the Italian tax incentive, called "Industria 4.0", which has a limited application time, might represent a boost to investment activities for 2017, taking account of Panariagroup's willingness to develop sales volume and the fact that the Group has always been focused on innovation, which is a peculiar characteristic of the assets object of the incentives.

Net financial position

Financial cash flow
(millions of euro)

	30 June 2017	31 Dec 2016	30 June 2016
Net financial position (debt) - beginning	**(83.7)**	**(83.0)**	**(83.0)**
Net Result for the period	9.6	11.2	5.4
D & A	10.6	19.4	9.1
Net Variation Provisions	3.0	6.9	3.1
Non monetary changes	0.1	(0.1)	0.1
Internal operating Cash flow	**23.3**	**37.3**	**17.8**
Change in net working capital and other assets and liabilities	(19.9)	(1.2)	(8.4)
Dividends	(3.1)	0.0	0.0
Net Investments	(12.5)	(36.7)	(16.1)
Change in the translation reserve	0.5	(0.1)	0.2
Net financial position (debt) - final	**(95.3)**	**(83.7)**	**(89.6)**

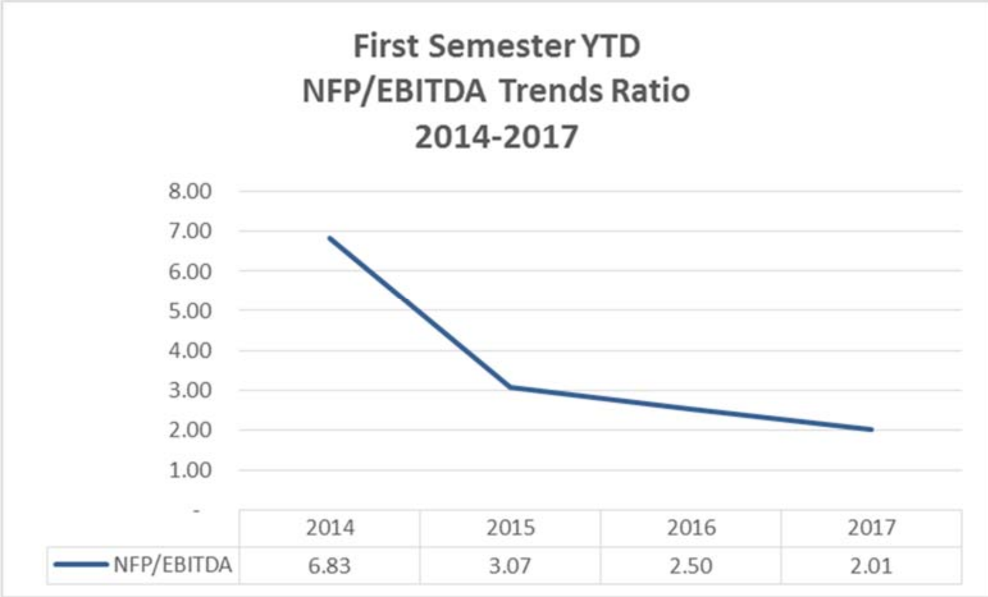
For a better understanding of the exchange rate effect on the Net Financial Position, the changes in the individual components of equity are "net" of the exchange rate effect which is incorporated in full in the item "change in the translation reserve". This item represents the actual impact of the change in exchange rates on the Group's Net Financial Position

Net Financial Position increased by Euro 5.7 million, compared to 30 June 2016. A significant portion of this change is due to the dividend distributed to shareholders in May and amounting to Euro 3.1 million.

Financial resources generated by operations, and growing with respect to the first half of 2016, allowed for effectively supporting investments and growth of Net working Capital, both needed to support sales.

Expectations for the second half of the year are an improvement in financial indebtedness, also considering the expected recovery resulting from the seasonal trends, which is typical of inventories and receivables from customers.

The EBITDA / NFP ratio, which has been taken as benchmark by the Group to assess Financial Indebtedness targets, further improved over the six-month period, thanks to the growth in GOM and is now 2.01.



Equity

Equity rose from Euro 172.2 million as of 31 December 2016 to Euro 173.7 million as of 30 June 2017, marking growth of Euro 1.5 million. The positive change, resulting from net profit, was entirely offset by the payment of dividends to shareholders and the weakening of the US dollar, which negatively affected the translation into Euro of the Equity related to Group US companies. The impact amounted to Euro 4.9 million.

Segment information

The application of IFRS 8 – Operating Segments became compulsory on 1 January 2009. The standard requires the identification of the operating segments with reference to the system of internal reporting used by senior management to allocate resources and to assess performance.

By contrast, the previous standard, IAS 14 – Segment Reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits; the system of reporting used was only a starting point for such identification.

In terms of their economic and financial characteristics, the products distributed by the Group are not significantly different from each other in terms of product nature, nature of the production process, distribution channels, geographical distribution or types of customer. Accordingly, considering the requirements specified in paragraph 12 of the standard, the breakdown called for is unnecessary since the information would not be useful to readers of the financial statements.

The data required by Paragraphs 32-33 of IFRS 8 are presented below. In particular:

- The breakdown of revenues by principal geographical area and by type of product is provided in the table presented in the earlier section on "Revenues",
- The breakdown of total assets by geographical location is shown below:

CONSOLIDATED FINANCIAL STATEMENT

Breakdown of assets by geographical area (amounts in thousand Euro) - IFRS classification

ASSETS	Italy	Europe	USA	Other	30/06/2017
NON-CURRENT ASSETS	**55**	**47**	**70**	**0**	**172**
Goodwill	0.4	7.8	-	-	8.1
Intangible assets	6.3	0.4	7.5	-	14.3
Property, plant and equipment	41.9	37.4	38.2	-	117.4
Equity Investments	0.0	0.0	-	0.0	0.0
Deferred tax assets	6.6	1.0	3.6	-	11.2
Other non-current assets	0.4	-	0.3	-	0.7
Non-current Financial Assets	-	-	20.3	-	20.3
CURRENT ASSETS	**125.4**	**53.3**	**72.0**	**13.2**	**263.9**
Inventories	78.7	22.0	45.2	-	145.9
Trade Receivables	35.6	27.7	20.9	13.2	97.4
Due from tax authorities	3.5	0.7	1.8	-	6.0
Other current assets	4.9	0.2	0.9	-	6.1
Current Financial Assets	-	-	1.2	-	1.2
Cash and cash equivalents	2.7	2.7	2.0	-	7.3
TOTAL ASSETS	**180.9**	**100.0**	**141.9**	**13.2**	**435.9**

	Italy	Europe	USA	Other	TOT
Net investments 2017	**5.2**	**3.1**	**4.2**	**-**	**12.5**

Research and development activities

Research and development activities have continued in 2017 within the sector of reference in which our Group has always distinguished itself.

Research and development activities include applied research in our laboratories and the adoption of advanced production technologies.

These two activities, added to the constant technological upgrading of facilities aimed at seeking solutions in production processes to enable cost savings, have allowed us to develop product lines with a high technical content and aesthetic innovations that guarantee us supremacy in the high/luxury end of the ceramic tile market.

The new product lines completed and in the course of being completed in 2017, especially those to be presented, as usual, at the 2017 Cersaie trade fair (the most important trade fair in the world for the industry, held at the end of September) are expected to be well received, and the positive outcome of these innovations should be capable of generating good results in terms of turnover, with a favourable impact on the business.

Transactions with parent companies, affiliates and related parties

As regards the condensed half-yearly consolidated financial statements for 2017, related party transactions are explained in the explanatory notes.
In compliance with Consob Communication DEM/6064293 of 28 July 2006, we hereby specify that the Group’s interest in carrying out the related-party transactions described in the explanatory notes is made explicitly manifest by the fact that almost all transactions consist of leases of industrial facilities used by the Parent Company for the conduct of its business.

Reconciliation of the parent company's equity and net profit with the corresponding consolidated amounts

As required by Consob Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net profit with the corresponding consolidated amounts reported as of 30 June 2017 (in thousands of Euro):

	2017-06		2016-12		2016-06	
	Equity	Net Income (Loss)	Equity	Net Income (Loss)	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Partent Company)	**146,987**	**4,425**	**145,621**	**3,339**	**141,336**	**(1,339)**
Difference between the book value of equity investments and their value using the equity method	27,664	5,318	27,263	10,041	22,748	6,728
Elimination of unrealised gains arising on the intercompany transfer of inventories	(1,205)	27	(1,232)	(42)	(1,316)	(126)
Reversal of exchange losses (gains) on intercompany loan	0	168	0	(147)	0	119
Aligment to Group depreciation's rates	76	(11)	87	(22)	97	(11)
Recognition of deffered tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	440	(2)	442	26	465	47
Elimination of unrealised gains arising from dividend disribution	0	0	0	(1,980)	0	0
Aligment at expected tax rate ex-IAS 34	(345)	(345)				
Other	37	0	37	0	37	0
Net effect of consolidation adjustments	**26,667**	**5,155**	**26,597**	**7,876**	**22,031**	**6,757**
As per consolidated financial statements	**173,654**	**9,580**	**172,218**	**11,215**	**163,367**	**5,418**

Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 28 April 2017, the Company has renewed a stock buy-back programme which stood as follows as of 30 June 2017:

Treasury shares

No. of shares	*% equity*	*Average book value*	*Amount*
432,234	**0.953%**	**3.7347**	**1,614,284.94**

The number of treasury shares in portfolio is the same as 2016, as no purchases or sales were made during 2017.

Panariagroup Industrie Ceramiche S.p.A. does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during the first half of 2017; there are therefore no disclosures to be made in accordance with Article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

Atypical and/or unusual transactions

As required by Consob Communication DEM/6064293 of 28 July 2006, we declare that there were no atypical and/or unusual transactions, as defined in the explanatory notes, during the first half of 2017.

Privacy policy

In compliance with Attachment B) of the Italian Legislative Decree no. 196/2003 (Privacy Act), the directors acknowledge that the company has complied with the minimum security measures provided for by that legislation.

In particular, pursuant to point 26 of the same Attachment B), the company has properly prepared a Policy Document on Privacy for the year 2017 that has been deposited at the head office and may be consulted by authorised persons and/or the appropriate authorities.

Significant subsequent events

There were no significant events in the period following the closing of the financial statements as of 30 June 2017.

Outlook for Group operations

The performance of the first half of 2017 fulfilled all programmes set out by the Group and all assessment parameters of the business reported more than satisfactory levels.

The remarkable recovery of margin in the Italian Business Unit should be highlighted, which has rewarded the intense activity carried out to increase competitiveness over the last few years.

Forecasts for the next half year are positive and we believe that the Group is capable of obtaining, in the second half of the year as well, improved economic and financial results, compared to 2016.

Over the last few years, the Group has undertaken a highly structured path which, due to the crisis, was developed in three phases, each with specific objectives.
Starting from the first restructuring phase (streamlining of inventories, reconversion of plants), the Group has then passed to the reorganization phase (optimization of commercial structures, enhancement of managerial skills within the companies) until reaching the current development phase (new trade channels and new products), which will allow us to achieve new historic records for the company over the next two years, not only regarding revenues (already achieved in 2016), but also income.

For the two-year period 2017-2018, our programmes are already very clear and defined. For the years to come, the foreseeable Group's size and its stronger economic and equity position will allow for new possible strategic scenarios and growth opportunity that will be carefully assessed.

Report on Corporate Governance and the Ownership Structure

In compliance with the disclosure requirements of Borsa Italiana Spa and Consob, Panariagroup Industrie Ceramiche Spa has prepared the "*Report on Corporate Governance and the Ownership Structure*" which can be consulted at its website www.panariagroup.com in the section entitled Company Documents (as required by Art. 123-bis of Italian Law Decree no. 58 of 24 February 1998).

Risk management

In compliance with all reporting requirements for listed companies, the Law 262/2005 has amended the Issuer Regulations by introducing a requirement for the Directors of such companies to identify, assess and manage risks relating to the Company's activities. The main types of risk that have been identified are as follows:

GENERAL ECONOMIC RISK

As all operators, Panariagroup is subjected to the risk of unpredictability market trends, and therefore, any significant negative changes in economic conditions, may have an impact on Group's economic and financial position.
We also believe that the balanced turnover distribution in the different geographic areas, represents an important mitigating factor for this risk.

CREDIT AND LIQUIDITY RISK

The Group's exposure to credit and liquidity risk is analysed in the explanatory notes accompanying these financial statements, which include the information required by IFRS 7.

RISK OF DEPENDENCE ON KEY PERSONNEL

The Group's performance depends, among other things, on the competence and quality of its managers, as well as the ability to ensure continuity in the running of operations. Since several of the principal managers of Panariagroup are shareholders in Panariagroup Industrie Ceramiche S.p.A. - through Finpanaria S.p.A., which holds roughly 70% of the share capital - it is reasonable to assume that the possibility of its principal managers leaving the Group is remote. Should this happen, however, it could have a negative impact on the activities and results of Panariagroup.

MARKET RISK

Competition risk:

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian firms, are: (i) producers in emerging markets, who are particularly competitive price-wise and target the lower end of the market; (ii) European producers, some of whom are able to compete at the higher end of the market, with average prices that are lower than those of Italian companies, due to lower production costs. Our Group believes that its positioning in the high-end luxury market segment – a difficult one for low-cost producers to enter - the renown of its trademarks, the wide range of product lines offered and the particular care and attention given to *design*, all represent competitive advantages over the products offered by such competitors. Increased competition could negatively impact the Group's economic and financial results in the medium to long term.

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2016 and 2017. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term.

Environmental protection, personnel costs and regulations relating to the sector

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain chemical compounds, particularly with regard to the treatment of such materials, emissions control and waste disposal.

The Group keenly monitors environmental and personnel risks, and any situations arising in connection with operations are treated in compliance with the regulations.

With regard to its personnel, Panariagroup protects the health and safety of its employees in compliance with current regulations governing health and safety in the workplace.

The average workforce in the first half of 2017 consisted of 1,697 persons, an increase of 41 employees compared with the average figure for 2016.

Consob resolution no. 11971 of 14 May 1999

In compliance with the provisions of this resolution, the following table reports the interests in Panariagroup and its subsidiaries held by directors, statutory auditors, general managers, key management personnel and their spouses, unless legally separated, and minor children, directly or through companies under their control, trust companies or third parties, as reported in the shareholders' register, notices received and other information obtained from the same directors, statutory auditors, general managers and key management personnel:

- ART. 79 -

TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 30 June 2017

ame and Last Nam	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2017	Number of shares sold in 2017	Number of shares held at 30-June-17	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	393,039			393,039	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Andrea	Panariagroup	611,413		84,394	527,019	Direct	Property
Pini Giuliano	Panariagroup	97,802			97,802	Direct	Property
		7,880	3,000		10,880	Spouse	Property
Mussini Emilio	Panariagroup	129,436			129,436	Direct	Property
		13,080			13,080	Spouse	Property
Mussini Paolo	Panariagroup	1,000			1,000	Direct	Property
Mussini Silvia	Panariagroup	21,900			21,900	Direct	Property
Prodi Daniele	Panariagroup	29,500			29,500	Direct	Property
Bonfiglioli Sonia	Panariagroup	-			-		
Ferrari Tiziana	Panariagroup	-			-		
Bazoli Francesca	Panariagroup	-			-		
Marchese Sergio	Panariagroup	-			-		
Ascari Pier Giovanni	Panariagroup	-			-		
Muserra Francesca	Panariagroup	-			-		
Total		**1,309,450**	**3,000**	**84,394**	**1,228,056**		

Warnings

The half-yearly consolidated financial statements to 30 June 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Legislative Decree 38/2005. The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Group adopted the IFRS standards issued by the International Accounting Standards Board officially approved by the European Union. The accounting policies and financial statement formats used in preparing these financial statements do not differ from those applied in the financial statements for the year ended 31 December 2016, with the exception of those international accounting standards which entered into effect as at 01 January 2017 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as at 01 January 2017"; refer to this section for more information. The application of these standards did not produce any significant effects.

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 June 2017 three 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).

Performance measures

Explanatory notes and directors' report, include some performance indicators in order to present a better evaluation of financial and economic performance of the Group.

As regards those indicators, on December 3, 2015, CONSOB issued Communication no. 92543/15, which gives force to the Guidelines issued on October 5, 2015, by the European Securities and Markets Authority (ESMA) concerning the presentation of alternative performance measures in regulated information disclosed or prospectuses published as from July 3, 2016. These Guidelines, which update the previous CESR Recommendation (CESR/05-178b), are intended to promote the usefulness and transparency of alternative performance indicators included in regulated information or prospectuses within the scope of application of Directive 2003/71/EC in order to improve their comparability, reliability and comprehensibility.
Accordingly, in line with the regulations cited above, the criteria used to construct these indicators are as follows:

- Gross operating margin: this is made up of the pre-tax result before financial income and expenses, depreciation and amortisation, provisions and impairment charges on assets made during the period and provisions;
- Net operating margin: this is made up of the pre-tax result before financial income and expenses;
- Pre-tax profit (loss): this is made up of the result for the period before income taxes.
- Net Working capital: this is made up of the inventory, account receivable, other current assets, net of account payables and other current liabilities.
- Net Financial Position: this is made up of cash and financial credit, net of bank short and medium-long terms financial debts and leasing.

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as of 30 June 2017
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as of 31 December 2016
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Sassuolo 4th August 2017 ***Mussini Emilio***

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
Figures at 30 June 2017

STATEMENT OF FINANCIAL POSITION - IFRS

ATTIVO	30 June 2017	RIF
NON-CURRENT ASSETS	**172,050**	
Goodwill	8,139	ANC1
Intangible assets	14,251	ANC2
Property, plant and equipment	117,432	ANC3
Equity Investments	48	ANC4
Deferred tax assets	11,223	ANC5
Other non-current assets	653	ANC6
Non-current Financial Assets	20,304	ANC7
CURRENT ASSETS	**263,869**	
Inventories	145,945	AC1
Trade Receivables	97,389	AC2
Due from tax authorities	6,009	AC3
Other current assets	6,067	AC4
Current Financial Assets	1,186	AC5
Cash and cash equivalents	7,273	AC6
TOTAL ASSETS	**435,919**	
LIABILITIES AND EQUITY	**30 June 2017**	
EQUITY	**173,654**	PN
Share capital	22,678	
Reserves	141,396	
Net profit (loss) for the year	9,580	
NON-CURRENT LIABILITIES	**103,210**	
Employee severance indemnities	5,794	PNC1
Deferred tax liabilities	8,230	PNC2
Provisions for risks and charges	4,951	PNC3
Other non-current liabilities	2,473	PNC4
Due to banks	58,429	PNC5
Due to other sources of finance	23,333	PNC6
CURRENT LIABILITIES	**159,055**	
Due to suppliers	84,907	PC1
Due to tax authorities	3,791	PC2
Other current liabilities	28,024	PC3
Due to banks	40,332	PC4
Due to other sources of finance	2,001	PC5
TOTAL LIABILITIES AND EQUITY	**435,919**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	30 June 2017	RIF
Inventories	145,945	AC1
Trade Receivable	97,389	AC2
Other current assets	12,076	AC3+AC4+AC5-(*)
CURRENT ASSETS	**255,410**	
Due to suppliers	(84,907)	PC1
Other current liabilities	(31,815)	PC2+PC3
CURRENT LIABILITIES	**(116,722)**	
NET WORKING CAPITAL	**138,688**	
Goodwill	8,139	ANC1
Intangible assets	14,251	ANC2
Property, plant and equipment	117,432	ANC3
Equity Investments	48	ANC4+ANC7 - (**)
FIXED ASSETS	**139,870**	
Receivables due beyond 12 months	653	ANC6
Employee severance indemnities	(5,794)	PNC1
Provision for risk and charge	(4,951)	PNC3
Provision for deferred taxes	2,993	ANC5+PNC2
Other liabilities due beyond 12 months	(2,473)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**(9,572)**	
NET CAPITAL EMPLOYED	**268,986**	
Short term financial assets	(7,273)	AC6
Short term financial indebtedness	41,147	PC4+PC5 - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**33,874**	
Mid-Long term financial debt	61,458	PNC5+PNC6 - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**61,458**	
NET FINANCIAL POSITION	**95,332**	
Group Shareholders' Equity	173,654	PN
SHAREHOLDERS' EQUITY	**173,654**	
TOTAL SOURCES OF FOUNDS	**268,986**	

(*) CURRENT PORTION OF IRB **1,186**
Classified under current assets in the IFRS satatement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB **20,304**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
Figures at 31 December 2016

STATEMENT OF FINANCIAL POSITION - IFRS

ATTIVO	31 Dec 2016	RIF
NON-CURRENT ASSETS	**179,739**	
Goodwill	8,139	ANC1
Intangible assets	13,967	ANC2
Property, plant and equipment	119,595	ANC3
Equity Investments	82	ANC4
Deferred tax assets	14,394	ANC5
Other non-current assets	777	ANC6
Non-current Financial Assets	22,785	ANC7
CURRENT ASSETS	**252,013**	
Inventories	140,173	AC1
Trade Receivables	79,903	AC2
Due from tax authorities	8,020	AC3
Other current assets	5,637	AC4
Current Financial Assets	1,285	AC5
Cash and cash equivalents	16,995	AC6
TOTAL ASSETS	**431,752**	
LIABILITIES AND EQUITY	**31 Dec 2016**	
EQUITY	**172,218**	PN
Share capital	22,678	
Reserves	138,325	
Net profit (loss) for the year	11,215	
NON-CURRENT LIABILITIES	**110,000**	
Employee severance indemnities	5,913	PNC1
Deferred tax liabilities	8,989	PNC2
Provisions for risks and charges	4,725	PNC3
Other non-current liabilities	3,386	PNC4
Due to banks	60,694	PNC5
Due to other sources of finance	26,293	PNC6
CURRENT LIABILITIES	**149,534**	
Due to suppliers	83,647	PC1
Due to tax authorities	3,320	PC2
Other current liabilities	24,777	PC3
Due to banks	35,808	PC4
Due to other sources of finance	1,982	PC5
TOTAL LIABILITIES AND EQUITY	**431,752**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	31 Dec 2016	RIF
Inventories	140,173	AC1
Trade Receivable	79,903	AC2
Other current assets	13,657	AC3+AC4+AC5-(*)
CURRENT ASSETS	**233,733**	
Due to suppliers	(83,647)	PC1
Other current liabilities	(28,097)	PC2+PC3
CURRENT LIABILITIES	**(111,744)**	
NET WORKING CAPITAL	**121,989**	
Goodwill	8,139	ANC1
Intangible assets	13,967	ANC2
Property, plant and equipment	119,595	ANC3
Equity Investments	82	ANC4+ANC7 - (**)
FIXED ASSETS	**141,783**	
Receivables due beyond 12 months	777	ANC6
Employee severance indemnities	(5,913)	PNC1
Provision for risk and charge	(4,725)	PNC3
Provision for deferred taxes	5,405	ANC5+PNC2
Other liabilities due beyond 12 months	(3,386)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**(7,842)**	
NET CAPITAL EMPLOYED	**255,930**	
Short term financial assets	(16,995)	AC6
Short term financial indebtedness	36,505	PC4+PC5 - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**19,510**	
Mid-Long term financial debt	64,202	PNC5+PNC6 - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**64,202**	
NET FINANCIAL POSITION	**83,712**	
Group Shareholders' Equity	172,218	PN
SHAREHOLDERS' EQUITY	**172,218**	
TOTAL SOURCES OF FOUNDS	**255,930**	

(*) CURRENT PORTION OF IRB **1,285**

Classified under current assets in the IFRS satatement of financial position

Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB **22,785**

Classified under financial assets in the IFRS statement of financial position

Included in the long-term financial indebtedness in the reclassified statement of financial position

RECONCILIATION BETWEEN THE SUMMARY OF CASH FLOWS AND THE CASH FLOW STATEMENT

Foreword:

The summary of cash flows presented in the directors' report measures the change in total net financial indebtedness, while the cash flow statement measures the change in short-term net financial indebtedness.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	30 June 2017	
Cash	(230)	
Other Cash and cash equivalents	(7,043)	
Securities held for sale	0	
Liquidity	**(7,273)**	**(*)**
Short-term financial assets	**(1,186)**	
Due to banks	19,359	
Current portion of long-term loans	20,973	
Other short-term financial debt	2,001	
Short-term financial indebtedness	**42,333**	
Net short-term financial indebtness	**33,874**	
Non-current portion of long-term loans	58,429	
Due to bondholders	0	
Other long-term financial debt	23,333	
Long-term financial indebtedness	**81,762**	
Long-term financial assets	**(20,304)**	
Net financial indebtness	**95,332**	**(**)**

Cash and cash equivalents	**(7,273)**	**(*)**
(Subject of the IFRS Cash Flow Statement)		

Total net financial position	**95,332**	**(**)**
(Subject of the financial cash flows as per Directors Report)		

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT
CASH FLOW STATEMENT
(THOUSAND OF EURO)

(Thousands of Euro))	30 June 2017	
A - OPERATIONS		
Profit (loss) of the year	9,580	A
Depreciation and amortisation	10,614	B
Losses (gains) on assets disposal	(49)	C
Deferred tax liabilities (assets)	2,563	D
Non-monetary change in provisions for employee severance indemnities	149	E
Net change in provisions	298	F
Tax effect on elimination of intercompany exchange rates	64	G
Revaluation and writedown of equity investments	28	H
Cash flow (absorption) from operations prior to changes in working capital	*23,247*	
(Increase)/(decrease) in trade receivables	(19,093)	
(Increase)/(decrease) in inventories	(9,542)	
(Increase)/(decrease) in trade payables	4,382	
Employee severance indemnities disbursement	(268)	
Net change in other assets/liabilities	4,661	
Cash flow (absorption)from operations due to changes in working capital	*(19,860)*	I
Total (A) Cash flow from operations	**3,387**	
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(12,572)	J
Net investment in financial assets	-	K
Exchange differences on tangible and intangible assets	99	L
Total (B) Cash Flow (absorption) from investment activities	**(12,473)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	(3,145)	M
Non- monetary changes recorded in equity	85	N
Net change on financial liabilities (net of New Loans/Loans repayments)	5,205	
New Loans	10,000	
Loan repayments	(13,307)	
Total (C) Cash Flow (absorption) from financing activities	**(1,162)**	
Opening net cash (indebtedness)	**16,995**	
Change in the translation reserve	**526**	O
Net change in short-term net cash (indebtedness) (A+B+C)	**(10,248)**	
Closing net cash (indebtedness)	**7,273**	(*)

Financial cash flow
(thousands euro)

	30/06/17	
Net financial position (debt) - beginning	**(83,712)**	
Net Result for the period	9,580	A
D & A	10,614	B
Net Variation Provisions	3,010	D+E+F
Non monetary changes	128	C+G+H+N
Internal operating Cash flow	**23,332**	
Change in net working capital and other assets and liabilities	(19,860)	I
Dividends	(3,145)	M
Net Investments	(12,473)	J+K+L
Exchange rate diff. from US$ financial statement conversions	526	O
Net financial position (debt) - final	**(95,332)**	(**)

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(THOUSANDS OF EURO)

Note	ASSETS	30-June-2017	31-Dec-2016
	NON-CURRENT ASSETS	**172,050**	**179,739**
1.a	Goodwill	8,139	8,139
1.b	Intangible assets	14,251	13,967
1.c	Property, plant and equipment	117,432	119,595
1.d	Equity Investments	48	82
1.e	Deferred tax assets	11,223	14,394
1.f	Other non-current assets	653	777
1.g	Non-current Financial Assets	20,304	22,785
	CURRENT ASSETS	**263,869**	**252,013**
2.a	Inventories	145,945	140,173
2.b	Trade Receivables	97,389	79,903
2.c	Due from tax authorities	6,009	8,020
2.d	Other current assets	6,067	5,637
2.e	Current Financial Assets	1,186	1,285
2.f	Cash and cash equivalents	7,273	16,995
	TOTAL ASSETS	**435,919**	**431,752**

	LIABILITIES AND EQUITY	30-June-2017	31-Dec-2016
3	**EQUITY**	**173,654**	**172,218**
	Share capital	22,678	22,678
	Reserves	141,396	138,325
	Net profit (loss) for the year	9,580	11,215
	NON-CURRENT LIABILITIES	**103,210**	**110,000**
4.a	Employee severance indemnities	5,794	5,913
4.b	Deferred tax liabilities	8,230	8,989
4.c	Provisions for risks and charges	4,951	4,725
4.d	Other non-current liabilities	2,473	3,386
4.e	Due to banks	58,429	60,694
4.f	Due to other sources of finance	23,333	26,293
	CURRENT LIABILITIES	**159,055**	**149,534**
5.a	Due to suppliers	84,907	83,647
5.b	Due to tax authorities	3,791	3,320
5.c	Other current liabilities	28,024	24,777
5.d	Due to banks	40,332	35,808
5.e	Due to other sources of finance	2,001	1,982
	TOTAL LIABILITIES AND EQUITY	**435,919**	**431,752**

PANARIAGROUP

CONSOLIDATED INCOME STATEMENTS

(THOUSANDS OF EURO)

Note		30-June-2017		30-June-2016	
6.a	**REVENUES FROM SALES AND SERVICES**	**206,838**	**92.9%**	**193,795**	**97.1%**
	Change in inventories of finished products	10,016	4.5%	45	0.0%
6.b	Other revenues	5,683	2.6%	5,724	2.9%
	VALUE OF PRODUCTION	**222,537**	**100.0%**	**199,564**	**100.0%**
7.a	Raw materials	(61,081)	-27.4%	(56,359)	-28.2%
7.b	Services, leases and rentals	(82,600)	-37.1%	(72,881)	-36.5%
	of whic, related party transactions	*(2,725)*	*-1.2%*	*(2,725)*	*-1.4%*
7.c	Personell costs	(49,265)	-22.1%	(46,876)	-23.5%
7.d	Other operating expenses	(1,707)	-0.8%	(2,064)	-1.0%
	PRODUCTION COSTS	**(194,653)**	**-87.5%**	**(178,180)**	**-89.3%**
	GROSS OPERATING PROFIT	**27,884**	**12.5%**	**21,384**	**10.7%**
8.a	Amortisation and depreciation	(10,615)	-4.8%	(9,135)	-4.6%
8.b	Provisions and writedowns	(1,084)	-0.5%	(1,264)	-0.6%
	NET OPERATING PROFIT	**16,185**	**7.3%**	**10,985**	**5.5%**
9.a	Financial income (expense)	(2,461)	-1.1%	(2,018)	-1.0%
	PRE-TAX PROFIT	**13,724**	**6.2%**	**8,967**	**4.5%**
10.a	Income taxes	(4,144)	-1.9%	(3,549)	-1.8%
	NET PROFIT	**9,580**	**4.3%**	**5,418**	**2.7%**
	BASIC AND DILUTED EARNING PER SHARE	**0.211**		**0.119**	

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	30-June-2017	30-June-2016
NET PROFIT (LOSS) FOR THE PERIOD	**9,580**	**5,418**
Other components of comprehensive income that will be reclassified later to after-tax profit	**(4,997)**	**(1,331)**
Exchange rate differences from foreign operations	(5,084)	(1,165)
Profit (loss) on interest rate hedging transactions accounted in accordance with the Cash Flow Hedge method	87	(166)
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	**(2)**	**24**
Profit (loss) on Joint Venture - accounted with Equity Method	(2)	29
Other	0	(5)
COMPREHENSIVE INCOME FOR THE PERIOD	**4,581**	**4,111**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT
CASH FLOW STATEMENT
(THOUSANDS OF EURO)

	June, 30	
(in thousands of Euro)	**2017**	**2016**
A - ATTIVITA' OPERATIVA		
Profit (loss) of the year	9,580	5,418
Depreciation and amortisation	10,614	9,135
Losses (gains) on assets disposal	(49)	(37)
Deferred tax liabilities (assets)	2,563	2,721
Non-monetary change in provisions for employee severance indemnities	149	63
Net change in provisions	298	498
Tax effect on elimination of intercompany exchange rates	64	45
Revaluation and writedown of equity investments	28	180
Cash flow (absorption) from operations prior to changes in working capital	*23,247*	*18,023*
(Increase)/(decrease) in trade receivables	(19,093)	(17,637)
(Increase)/(decrease) in inventories	(9,542)	(454)
(Increase)/(decrease) in trade payables	4,382	6,975
Employee severance indemnities disbursement	(268)	(160)
Net change in other assets/liabilities	4,661	2,679
Cash flow (absorption)from operations due to changes in working capital	*(19,860)*	*(8,597)*
Total (A) Cash flow from operations	**3,387**	**9,426**
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(12,572)	(16,112)
Net investment in financial assets	-	-
Exchange differences on tangible and intangible assets	99	53
Total (B) Cash Flow (absorption) from investment activities	**(12,473)**	**(16,059)**
C - FINANCING ACTIVITY		
Distribution of dividends	(3,145)	-
Non- monetary changes recorded in equity	85	(142)
Net change on financial liabilities (net of New Loans/Loans repayments)	5,205	16,844
New Loans	10,000	8,997
Loan repayments	(13,307)	(12,963)
Total (C) Cash Flow (absorption) from financing activities	**(1,162)**	**12,736**
Opening net cash (indebtedness)	**16,995**	**7,500**
Change in the translation reserve	**526**	**150**
Net change in short-term net cash (indebtedness) (A+B+C)	**(10,248)**	**6,103**
Closing net cash (indebtedness)	**7,273**	**13,753**
Supplementary information:		
Interest paid	463	539
Income taxes paid	278	793

For a better understanding of the exchange rate effect on the Net Financial Position, a method of disclosing cash flows was adopted in which the changes in the single equity components are “free” from the exchange rate effect, which is entirely reported in the item “Changes due to the exchange rate effect”. This caption reflects the actual impact of exchange differences on the Net Financial Position of the Group.

In accordance with IAS 7, the cash flow statement shows movements of cash and cash equivalents. For a better understanding of the overall financial performance, the Report on Operations includes a summary financial statement showing movements in Net Financial Position as a whole.

PANARIAGROUP

Statement of changes in consolidated equity in first half 2016 and first half 2017

(THOUSANDS OF EURO)	*Share Capital*	*Share premium reserve*	*Revaluation reserve*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2016	**22,678**	**60,783**	**4,493**	**3,958**	**49,188**	**8,589**	**3,702**	**5,865**	**159,256**
Net result for the period								5,418	5,418
Other comprehensive profit (loss)					(142)	(1,165)			(1,307)
Total gains (losses) booked directly to equity					**(142)**	**(1,165)**		**5,418**	**4,111**
Allocation of net profit for year 2015					5,865			(5,865)	
Balance as of 30.06.2016	**22,678**	**60,783**	**4,493**	**3,958**	**54,911**	**7,424**	**3,702**	**5,418**	**163,367**
Balance as of 01.01.2017	**22,678**	**60,783**	**4,493**	**3,958**	**54,531**	**10,858**	**3,702**	**11,215**	**172,218**
Net result for the period								0	0
Other comprehensive profit (loss)					85	(5,084)			(4,999)
Total gains (losses) booked directly to equity					**85**	**(5,084)**		**0**	**(4,999)**
Allocation of net profit for year 2016				167	11,048			(11,215)	0
Dividends					(3,145)				(3,145)
Balance as of 30.06.2017	**22,678**	**60,783**	**4,493**	**4,125**	**62,519**	**5,774**	**3,702**	**0**	**164,074**

PANARIAGROUP

EXPLANATORY NOTES

INTRODUCTION

Panariagroup Industrie Ceramiche S.p.A. (the "Company") is a joint-stock company incorporated in Italy and registered in the Companies Register of Modena. It has fully paid-in share capital of Euro 22,677,645.50 and its registered offices are in Via Panaria Bassa 22/A, Finale Emilia (Modena), Italy. It is listed on the STAR segment of the Italian Stock Exchange.

The companies that make up the Panaria Group (the "Group") produce and sell ceramic tiles for floors and wall coverings.

The condensed half-yearly consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of art. 9 of Legislative Decree no. 38/2005.
The term IFRS means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

In the case in question, these half-yearly consolidated financial statements have been prepared in condensed form, in compliance with IAS 34 ("Interim financial reporting").
Therefore, these condensed half-yearly financial statements do not include information required for the yearly financial statements and should be read together with the financial statements ended 31 December 2016. The publication of the condensed half-yearly consolidated financial statements as of 30 June 2017 was authorised by the Board of Directors on 4 August 2017.

The currency used to draw up the consolidated financial statements for the period 1 January - 30 June 2017 (hereafter also referred to as "the consolidated financial statements") is the Euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled "Accounting Principles".

In compliance with the provisions of Consob, the figures in the income statement are supplied for the reference half and are compared with the figures relating to the same period in the previous year. Balance sheet data relating to the date of the close of the half are compared with the data at the close of the last year. Therefore, comments on income statement captions are made by comparing the data with the same period in the previous year (30 June 2016), while for balance sheet amounts, the comparison is made with respect to the previous year (31 December 2016).

To ensure a clearer presentation of balance sheet data, in accordance with the standard IAS 1 - Presentation of the Financial Statements" paragraph 55 ("*An entity shall submit additional items (...), headings and partial results when such disclosure is important for understanding the entity's financial position*"), some changes have been made to the balance sheet; in particular:

- in the section "Non-current assets", the line previously referred to as "Financial assets" has been divided into "Equity investments" and "Non-current financial assets"

- in the section “Current assets”, the line previously referred to as “Other current assets” has been divided into “Other current assets” and “Current financial assets”
- in the “Current liabilities” and “Non-current Liabilities” sections, the line previously referred to as “Due to banks and other sources of finance” was divided into “Due to banks” and “Other financial payables”;

We believe that the new scheme allows for more immediate identification of financial assets and liabilities that, together with the “Cash and cash equivalents” and “Due to banks”, contribute to the calculation of net financial position.

Lastly, the order of presentation of the items was changed, from a format of decreasing liquidity to that of increasing liquidity, as decided upon transition to IFRS.

The Condensed Half-Yearly Consolidated Financial Statements include:

- The consolidated balance sheet as of 30 June 2017, compared with the consolidated balance sheet as of 31 December 2016. In particular, the balance sheet was drawn up in an increasing liquidity format, with non-current and current assets and liabilities shown separately, based on a 12-month operating cycle.

  In addition, as required by Consob resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately in the balance sheet.

- The consolidated income statement for the first half of 2017, with comparative figures from the consolidated income statement for the first half of 2016.

  It should be noted that, as decided at the time of the transition to IFRS, the income statement shows the following interim results, even if they are not accepted by IFRS as a valid accounting measurement, because Group management is of the opinion that the information is important for understanding the Group's economic results for the period:

  - *Gross Operating Profit*: pre-tax profit before financial income and expense, depreciation and amortisation, provisions and write-downs of assets carried out during the period and other provisions;
  - *Net Operating Profit*: pre-tax profit before financial income and expense;
  - *Pre-tax profit*: profit for the period before income taxes.

  As required by Consob resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately in the income statement.

  Consob resolution 15519 of 27 July 2006 also requires separate disclosure in the income statement of any significant non-recurring items of income or expense (positive and/or negative) or those arising from transactions and events that are not repeated frequently in the normal course of business.

- The consolidated statement of comprehensive income for the first half of 2017, with comparative figures from the consolidated statement of comprehensive income for the first half of 2016, presented in accordance with the requirements of revised IAS 1.

- The consolidated cash flow statement of the first half of 2017 and the first half of 2016. The indirect method has been used in drawing up the cash flow statement, which means that the profit or loss for the period has been adjusted for the effects of transactions of a non-monetary nature, for any deferral or provision for previous or future years' operating receipts or payments, and for any elements of revenue or cost related to the cash flows deriving from investment or financial activity.

- The statement of changes in consolidated equity during the first half of 2017 and during the first half of 2016.

- The explanatory notes (with related attachments).

1) GENERAL INFORMATION ON THE GROUP

The companies that make up the Panaria Group produce and sell ceramic tiles for floors and wall coverings.
The Group's products are marketed in more than 60 countries through eight distinctive brands: Panaria, Lea, Cotto d'Este, Fiordo, Blustyle, Margres, Love Tiles and Florida Tile.

The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.** It has fully paid-in share capital of Euro 22,677,645.50 and its registered offices are in Via Panaria Bassa 22/A, Finale Emilia (Modena), Italy. It is listed on the STAR segment of the Italian Stock Exchange.

The other companies included in the scope of consolidation are:

- **Gres Panaria Portugal S.A.**, with head office in Ilhavo, Portugal, with fully paid-in share capital Euro of 16,500,000, a wholly owned subsidiary of Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup USA Inc.**, with registered office in Delaware, USA and fully paid-in share capital of USD 65,500,000, a wholly owned subsidiary of Panariagroup Industrie Ceramiche S.p.A.
- **Lea North America LLC.**, with registered office in Delaware, USA, and share capital of USD 20,000 fully paid-in, a wholly owned subsidiary of Panariagroup USA Inc.
- **Florida Tile Inc.**, with its registered office in Delaware, USA, and share capital of USD 34,000,000 fully paid-in, a wholly owned subsidiary of Panariagroup USA Inc.
- **Montanari Ceramiche S.r.l.**, with registered office in Finale Emilia, Italy and share capital of Euro 48,000, fully paid-in, a wholly owned subsidiary of Panariagroup Industrie Ceramiche S.p.A.

Hence, the companies are all 100% controlled, directly or indirectly, by Panariagroup Industrie Ceramiche S.p.A.

The Group also has a 50% stake in a Joint Venture Company (JVC) called AGL Panaria Private Limited, in Ahmedabad, in the Indian state of Gujarat, together with Asian Granito India Ltd, a leading manufacturer in the Indian market.

The scope of consolidation is unchanged with respect to 31 December 2016.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The condensed half-yearly consolidated financial statements as of 30 June 2017 include the financial statements of Panariagroup Industrie Ceramiche S.p.A. and of those companies over which it exercises direct or indirect control, as defined in paragraphs 12 to 17 of IAS 27.
This standard states that control over another enterprise exists when the company has the power to determine its financial and operating policies so that the company can obtain benefits from the other's activity.

Subsidiaries are consolidated from the date on which the Group takes over control and are excluded from the scope of consolidation from the date on which such control ceases to exist.
Companies included in the scope of consolidation are wholly owned, directly or indirectly, thus there are no situations of de facto control or significant influence exercised.

Where necessary, adjustments are made to the subsidiaries' financial statements to bring them into line with Group accounting policies.

The carrying value of investments in consolidated companies held by the Parent or by other Group companies is eliminated against the related portion of equity and their assets and liabilities are combined on a line-by-line basis.

According to IFRS 3 provisions, at the acquisition date, the acquiring company must separately recognise goodwill, assets acquired and the identifiable liabilities assumed, and any acquired minority interests.

Jointly-controlled companies
These are companies over which the Group has joint control, established contractually, or for which contractual agreements are in place under which two or more parties undertake an economic activity subject to joint control. Equity investments in jointly-controlled companies are accounted for at equity.

As of 30 June 2017, the Group held one jointly-controlled company (JVC). In the consolidated financial statements, this investment was measured at equity, taking as a reference the most recent financial statements as of 31 March 2017 of the jointly-controlled company.

For these equity investments, at the time when joint control is lost, the difference between (a) the fair value of any retained stake and of the price received for the sale and (b) the book value of the investment at the date on which control is lost will be recognised in the income statement.

Figures will be evaluated on an annual basis to check whether changes occurred in facts and circumstances that would change the equal-standing relationship between the parties of the Joint Venture agreement.

All significant intercompany transactions and balances between Group companies are eliminated on consolidation.

Accounting policies

General principles

The financial statements have been prepared on an historical cost basis, except for certain financial instruments which are measured at fair value, and on a going-concern basis. In particular, the Group has determined that there are no uncertainties about business continuity, not least due to the actions taken to adapt to the different level of demand, as well as to the industrial and financial flexibility of the Group.

The accounting policies used to draw up the half-yearly consolidated financial statements ended 30 June 2017 are the same as those used to prepare the consolidated financial statements for the year ended 31 December 2016, with the exception of the accounting standards, amendments and interpretations applicable from 1 January 2017, which, however, had no impact on these financial statements. The Group has not opted for early adoption of any new standard, interpretation or amendment issued, but not yet in effect.

In particular, the following amendments should be noted.

IAS 7 Disclosure Initiative - Amendments to IAS 7 (not applicable as it has not received EU endorsement)
The amendments require an entity to provide additional information on changes in liabilities related to financing activities, including both cash flow and non-monetary changes (e.g., exchange gains and losses). Upon initial application of this amendment, the entity is not required to submit comparative information for previous periods. The Group is not required to provide additional information in the half-yearly consolidated financial statements, but must include it in the consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses (not applicable as it has not received EU endorsement)
The amendments clarify that an entity must consider whether tax legislation limits the taxable income sources against which it may make deductions related to the reversal of deductible temporary differences. Furthermore, the amendments provide guidelines on how an entity should determine future taxable income and explains the circumstances in which taxable income could include the recovery of certain assets for a value greater than their book value.

IFRS standards, amendments and interpretations not yet effective and not adopted early by the Group are listed below:

IFRS 15 - Revenue from Contracts with Customers. The standard sets out a new revenue recognition criterion that will be applied to all contracts entered with customers, except for those falling within the scope of other IAS/IFRS, such as leases, insurance contracts and financial instruments. The steps that are deemed as fundamental for the accounting of revenues are as follows:
- identify the contract;
- identify the performance obligations of the contract;
- determine the transaction price;

- allocate the price to each single performance obligation of the contract;
- determine the recognition criteria of revenues when the entity meets each single performance obligation.

This standard is effective for annual periods beginning on 1 January 2018.

IFRS 16 – Leases. The standard sets out that, unlike the past, leases must be presented in the company's financial statements, thus improving the disclosure of their assets and liabilities. IFRS 16 cancels the distinction between operating and financial leases (for the lessee), treating all lease agreements as financial leases. Short-term leases (within 12 months), and those in which the underlying asset has a low value (e.g. personal computers), are excluded from recognition requirements. The new standard will be effective on 1 January 2019. Early application is permitted provided that the recent standard IFRS 15 - Revenue from Contracts with Customers is also applied.

IFRS 9 – Financial Instruments. This document includes the results of the steps related to Classification and Measurement, Impairment, and Hedge Accounting, of the IASB project aimed at replacing IAS 39. This standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, as regards financial assets, the new standard uses a single approach based on methods of managing financial instruments and the characteristics of contract cash flows of financial assets, in order to determine the measurement criteria, therefore superseding provisions set out by IAS 39. Conversely, as regards financial liabilities, the main amendment involves the accounting treatment of fair value changes of a financial liability measured at fair value through the income statement, in the event these changes are due to changed creditworthiness of the liability itself. According to the new standard, these changes should be recognised under "Other comprehensive income" and will no longer be reported in the income statement. This standard is effective for annual periods beginning on 1 January 2018. The Group is assessing the impact that application of the new standard may have on the balance sheet.

IFRS 2 – Classification and Measurement of Share-Based Payment Transactions — Amendments to IFRS 2. IASB issued amendments to IFRS 2 Share-Based Payments that involve three main areas: effects of a vesting condition on measuring a share-based payment transaction settled in cash; classification of a share-based payment transaction settled net of withholding requirements; accounting treatment if a change in the terms and conditions of a share-based payment transaction modifies its classification from cash settlement to settlement in equity instruments. Upon adoption, entities must apply the changes without restating previous periods, but retrospective application is allowed if chosen for all three changes and other criteria are respected. These amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group does not expect any impact from applying these changes.

IFRS Annual Improvement Cycle 2014-2016 – On 8 December 2016, IASB issued minor changes to IFRS 1 (First-Time Adoption of IFRS) and IAS 28 (Investments in Associates and Joint Ventures) and an IFRIC Interpretation (Interpretation 22 - Foreign Currency Transactions and Advance Consideration). These improvements aim to tackle issues related to inconsistencies reported in IFRS standards or clarify terminology used, which are not urgent, but have been discussed by IASB during the project cycle. Among the key changes, note those relating to IFRIC 22, which addresses the use of exchange rates in transactions in which foreign currency amounts are paid or received in advance. These amendments will be applicable for years beginning on or after 1 January 2018.

The Group is assessing the impact of changes, amendments, and interpretations to endorsed accounting standards that were not adopted in advance or are in the process of being endorsed. The Group has begun an analysis of the potential impacts that the application of the new standards, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, may have on the financial statements and the notes accompanying the financial statements of the Group.

IFRS 15 was issued in May 2014 and introduces a new, five-step model to be applied to all contracts with customers. According to IFRS 15, revenue should be recognised for an amount corresponding to the right in payment the entity believes to have against the sale of goods or services to customers.

The new standard will replace all current IFRS requirements in relation to revenue recognition and is effective for financial years beginning on or after 1 January 2018. The Group expects to apply the new standard from the mandatory effective date.

During the last months of 2016, the Group launched a process, which is still ongoing, to develop a preliminary assessment of the principal effects of IFRS 15. This analysis involves identifying revenue streams (based on current management knowledge), by sending questionnaires to collect relevant information within the Group. Administrative and commercial functions were also involved in planning subsequent analyses.

The Group is considering the clarifications issued by IASB in April 2016 and will evaluate any further developments during the course of the impact assessment project. As part of defining the project, a work plan was devised to quantify the effects of applying the new standard, for which, based on preliminary assessments, no significant impacts are expected on revenue from sales of goods and services.

IFRS 16 was published in January 2016 and replaces IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases” and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all lease contracts in financial statements based on a single model similar to that used to account for finance leases in accordance with IAS 17. Given the high number of lease contracts and the importance of the changes made by the new standard, the Company has planned to prepare the analysis well in advance, in order to understand the effects of its application. The standard will become effective for financial years beginning on or after 1 January 2019.

Except for the above, no significant impacts on the separate and/or consolidated financial statements are expected from these new standards.

The main accounting policies applied are described below.

Foreign currency transactions

The financial statements of the individual Group companies are prepared in the currency of the main economic environment in which they operate (functional currency). For consolidation purposes, the financial statements of each foreign entity are expressed in euro, which is the functional currency of the Group and the currency in which the consolidated financial statements are presented. In preparing the financial statements of the individual entities, transactions in currencies other than the euro are initially booked at the governing exchange rates on the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in such currencies are restated at current exchange rates on said date. Non-monetary assets expressed at fair value that are denominated in a foreign currency are translated at the exchange rates in force on the date on which the fair values were determined. Exchange differences arising on the settlement of monetary items and their remeasurement at period-end exchange rates are booked to the income statement for the period, except for exchange differences on non-monetary assets expressed at fair value, for which changes in fair value are booked directly to equity, as is the exchange element.

For the presentation of the consolidated financial statements, the assets and liabilities of foreign subsidiaries that use functional currencies other than the Euro are translated at the exchange rates prevailing on the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. The exchange differences that arise as a result of this exercise are booked to the translation reserve in equity. The positive or negative balance on this reserve is then transferred to the income statement in the period when the subsidiary concerned is sold.

The companies that prepared financial statements in currencies other than the euro were as follows:

	Reporting currency
Lea North America LLC.	USD
Panariagroup USA Inc.	USD
Florida Tile Inc.	USD

The EUR/USD exchange rates used to translate these financial statements are as follows:

	30-Jun-17	31-Dec-16	30-Jun-16
Average exchange rate for the period	1.0830	1.1069	1.1159
Current exchange rate at the balance sheet date	1.1412	1.0541	1.1102

In accordance with IAS 21, exchange differences originating from the elimination of intragroup foreign currency loans, that form part of an investment in a foreign operation, are recognised as a separate component of equity, net of the related tax; such exchange differences are recognised in profit or loss only when the investment is sold.

Following the application of IAS 1 (revised in 2007), exchange differences arising from foreign operations are now reported in the statement of comprehensive income.

Income taxes

Income taxes are recognised on the basis of the best estimate of the weighted average rate expected for the full year and so subject to normal uncertainties.

Significant accounting policies based on the use of estimates

Preparation of the consolidated financial statements requires management to apply accounting principles and methods that in certain circumstances necessitate difficult and subjective valuations and estimates based on past experience and assumptions that, on each occasion, are considered reasonable and realistic, depending on the specific circumstances. These estimates and assumptions affect the amounts shown in the financial statements, namely the balance sheet, income statement and cash flow statement, as well as the other information provided in the report. The following is a brief description of the accounting principles that, more than others, require greater subjectivity on the part of management in making such estimates and for which a change in the conditions underlying the assumptions made can have a significant impact on the Group's consolidated financial statements.

Goodwill – Estimate of the degree of recoverability

The Group is showing various amounts of goodwill that arose on company acquisitions.
These amounts of goodwill are not amortised, but tested at least once a year for impairment, in accordance with the provisions of IAS 36, based on forecasts of expected cash flows over coming years. If future scenarios for the Group and the market turn out to be different from those assumed when developing the forecasts, the value of goodwill may be subject to write-downs, including different from those effected.

Inventory valuation and obsolescence provision

The Group values its inventories at the lower of cost and market (estimated realisable value), based on evaluations of market trends and making assumptions regarding the future realisability of the value of inventories. If effective market conditions turn out to be less favourable than those foreseen by the Group, the value of inventories may have to be written down.
Analyses are carried out to identify goods that are physiologically sold at a price lower than cost (second and third choice or obsolete material) and the presence of slow-moving stock.

Provision for bad and doubtful accounts

In order to establish an appropriate level for the provision for bad and doubtful accounts, the Group evaluates the likelihood of receivables being collected based on the solvency of each debtor. The quality of these estimates depends on the availability of up-to-date information on debtors' solvency. If the solvency of debtors were to decline due to the difficult economic environment in certain markets where the Group operates, the value of trade receivables could be subject to additional write-downs.

Deferred tax assets

Deferred tax assets are accounted for on the basis of expectations of taxable income in future years. The valuation of expected income for this purpose depends on factors that vary over time, which can have a significant impact on the value of deferred tax assets.

Contingent liabilities

In connection with legal proceedings, court cases and other disputes, to establish an appropriate level for the provisions for risks and charges relating to contingent liabilities, the Group examines the reasonableness of the claims being made by counterparties and the fairness of its own actions, and evaluates the amount of any damages that might result if the outcome is negative. The Group also consults with its lawyers on the problems involved in the disputes that arise as part of the Group's business activities. The level of the provisions needed to cover contingent liabilities is decided after careful analysis of each problem area. The level of provisions needed is potentially subject to future changes based on developments in each problem area.

Significant non-recurring events and transactions – Atypical and/or unusual transactions

As required by Consob Communication DEM/6064293 of 28 July 2006, any significant non-recurring events and transactions or atypical/unusual transactions have to be explained in the notes, disclosing their impact on the Group's balance sheet, financial position, results and cash flow.

Related parties

As required by Consob Communication DEM/6064293 of 28 July 2006, the explanatory notes have to explain the impact that related party transactions have on the Group's balance sheet, financial position, results and cash flow.

<u>Financial risks and derivatives</u>

The Group is exposed to a variety of trading and financial risks which are monitored and managed centrally. It does not make systematic use of derivatives to minimise the impact of such risks on its results.

The market risks to which the Group is exposed fall into the following categories:

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars.
Exchange rate risk mainly arises from the sale of finished products to the US market, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.
In some cases, the Group has hedged exchange rate risk by taking out derivatives such as

interest rate swaps.
See the “Financial income and expense” section of these notes for the sensitivity analyses required by IFRS 7.

b) Credit risk

The Group deals only with known, reliable customers. The Group has procedures for assigning credit to its customers that limit the maximum exposure for every position. In addition, the Group has extensive insurance coverage against its receivables from foreign customers.
The Group does not have any significant concentrations of credit risk.

See the “Trade receivables” section of these notes for the composition of trade receivables broken down by due date.

c) Interest rate risk

Risks associated with changes in interest rates refer to loans. Floating-rate loans expose the Group to the risk of fluctuating cash flows associated with interest payments. Fixed-rate loans expose the Group to the risk of change in the fair value of the loans themselves.

The Group's exposure is mainly to floating-rate debt.

See the “Financial income and expense” section of these notes for the sensitivity analyses required by IFRS 7.

d) Liquidity risk

In its main activities, the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group's objective is to ensure that it can meet all of its financial obligations at any moment in time, optimising its recourse to external financing. The Group maintains a certain number of lines of credit (see section 5.d “Due to banks”) in order to take advantage of unforeseen business opportunities which may arise or for unforeseen payments, in addition to commitments arising from planned capital expenditure.

Liquidity risk is closely monitored on a daily basis in order to plan for and predict liquidity.

See the comments in section 4.e “Due to banks” and 4.f “Other non-current financial payables” for information regarding the contractual maturities of financial liabilities.
However, note that there are no loans including covenants.

3) OTHER INFORMATION

Presentation of the consolidated financial statements

To assist readers, the consolidated financial statements are stated in thousands of Euro.

Subsequent events

There are no matters worth mentioning.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

4) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. *NON-CURRENT ASSETS*

1.a. Goodwill

“Goodwill” of Euro 8,139 thousand refers to goodwill recorded for the acquisition of Gres Panaria Portugal and Montanari Francesco S.r.l., net of the associated impairment.

In particular, with respect to Gres Panaria Portugal, the value of goodwill as of 30 June 2017 is Euro 7,789 thousand and relates to:

- The higher price paid for the acquisition of Maronagres Comercio e Industria Ceramica S.A. (Euro 4,235 thousand), net of the amortisation charged prior to the IFRS transition date;
- The higher price paid for the acquisition of Novagres Industria de Ceramica S.A. (Euro 7,854 thousand) compared with the Group's portion of its equity, adjusted to take account of the fair value of this company's assets and liabilities on the acquisition date.

The aforesaid amounts are reported after a write-down of Euro 4,300 thousand recognised in 2012 following the impairment test carried out at the end of the year for the Cash Generating Unit defined as the Portuguese company originating from the merger of Maronagres Comercio e Industria Ceramica S.A. and Novagres Industria de Ceramica S.A. Despite the fact that the Portuguese company began to generate profits in later years, the value was not written back, in accordance with IAS 36 - Impairment of Assets, which states that “*an impairment loss on goodwill cannot be reversed in a subsequent year*”.

The goodwill related to Maronagres derives from an acquisition made prior to the IFRS transition date and, therefore, the book value corresponds to the value resulting from the application of Italian accounting standards at that date (known as “deemed cost”).

The acquisitions of Novagres and Montanari, on the other hand, have been accounted for in accordance with IFRS 3.

These two Portuguese companies, purchased in 2002 and 2005 respectively, were merged at the end of 2006 to form a single entity called Gres Panaria Portugal S.A.

The value of goodwill relating to Montanari Ceramiche S.r.l. as of 30 June 2017 is Euro 350 thousand. This amount was generated as follows:

- The higher price paid for the acquisition of Montanari Ceramiche S.r.l. (Euro 900 thousand) compared with the Group's portion of its equity, adjusted to take account of the fair value of this company's assets and liabilities on the acquisition date;
- The total write-down of Euro 550 thousand must be subtracted from the above-mentioned value, of which Euro 200 thousand was recorded in 2009 and Euro 350 thousand in 2012, following the results of the impairment test.

The acquisition of Florida Tile did not involve booking any goodwill.

As stated earlier in the section on Accounting Principles, in accordance with IAS 36, the Group conducts impairment tests at least once a year, and whenever any impairment indicator is noted, in order to verify the recoverability of the goodwill recorded in the consolidated financial statements. If signs of potential critical issues are observed, the impairment test is extended to the entire residual value of property, plant and equipment and intangible assets recorded in the consolidated financial statements.

As of 30 June 2017, no impairment indicators were reported. Therefore, no further impairment testing was performed with respect to analyses made as of 31 December 2016.

1.b. Intangible assets

“Intangible assets” as of 30 June 2017 amount to Euro 14,251 thousand, which is higher than the figure of Euro 284 thousand reported as of 31 December 2016.

Changes during the period can be summarised as follows:

	2017
Initial balance	**13,967**
Additions for acquisitions	1,315
Reclassifications from property, plant and equipment	256
Net decreases due to disposals	(1)
Decreases due to amortisation	(641)
Exchange differences on foreign companies	(645)
Closing balance as of 30-Jun-17	**14,251**

Increases over the half year are primarily related to the acquisition and development of software, most importantly, the costs incurred in 2017 for the project to integrate the Group’s information system on a single platform (SAP).
The software became operational at the beginning of January 2017 in the Group’s American companies (Panariagroup USA, Florida Tile, and Lea North America). Note that costs related to training and start-up activities have been charged to the income statement, as required by international accounting standards.
In the first half of 2017, software development and implementation activities began in Gres Panaria Portugal.

The changes during the period are reported in an attachment.

1.c. Property, plant and equipment

The net book value of property, plant and equipment at the end of the period is as follows:

	30-Jun-17	31-Dec-16
Land and buildings	23,650	23,688
Plant and machinery	66,771	67,882
Equipment and other assets	23,177	17,435

Construction in progress	3,834	10,590
	117,432	**119,595**

Changes during the period can be summarised as follows:

	2017
Initial balance	**119,595**
Additions for acquisitions	11,035
Net decreases due to disposals	(49)
Decreases due to depreciation	(9,974)
Reclassifications to intangible assets	(256)
Exchange differences on foreign companies	(2,919)
Closing balance as of 30-Jun-17	**117,432**

The changes during the period are reported in an attachment.

Investments in property, plant and equipment during the period amounted to approximately Euro 11 million and comprise Euro 3.9 million for investments in the Italian Business Unit, Euro 3 million for investments in the Portuguese BU and Euro 4.1 million in the US BU.

The most significant investments of the first half of 2017 have already been described in the Directors' Report on Operations.

"Land and buildings" primarily include the buildings recognised in the financial statements of the Portuguese subsidiary Gres Panaria Portugal S.A.

The buildings in which Panariagroup Industrie Ceramiche S.p.A. carry out their business activities are rented, as they are owned by Immobiliare Gemma S.r.l. (related party), following the extraordinary spin-off transaction of real estate assets that occurred in 2004.

The subsidiary Florida Tile Inc. operates in the facility in Lawrenceburg (Kentucky), which it uses under an operating lease that expires in 2030 (with several renewal options up to 2050). The annual rent is USD 2 million, without a purchase option at the end of the contract.

1.d. Equity Investments

This caption comprises:

	30-Jun-17	**31-Dec-16**
Equity investment in AGL Panaria Private Ltd	40	70
Other	8	12
	48	**82**

1.e. Deferred tax assets

Deferred tax assets are broken down as follows:

	30-Jun-17	31-Dec-16
Deferred tax assets:		
- taxed provisions	4,792	4,661
- carried-forward tax losses	4,029	7,272
- US “Section 263” taxes	635	687
- deferred taxes on rented property	243	263
- US “AMT tax credit”	500	541
- other	1,024	970
Deferred tax assets	**11,223**	**14,394**

Deferred tax assets for “carried-forward tax losses” refer to the tax losses of the subsidiary Florida Tile Inc. (Euro 0.5 million) and to Panariagroup Industrie Ceramiche (Euro 3.5 million). Gres Panaria Portugal completed its recovery of outstanding carried-forward tax losses in 2016.

With reference to said deferred tax assets, the company plans drawn up and approved by the Group’s Management point to future economic results that will allow their recovery. The recoverability of deferred tax assets is therefore subject to the actual capacity of the above companies to generate, over a medium-term period, positive economic performance in compliance with the provisions of the company plans approved by the Group’s Directors on 17 March 2017.

The Parent Company Panariagroup Industrie Ceramiche S.p.A. is included in the tax group headed up by its parent company Finpanaria S.p.A., which also includes the related company Immobiliare Gemma S.p.A. and the subsidiary Montanari Ceramiche S.r.l.
The income tax (IRES) credit or debit is therefore a receivable or payable to the parent company which, in its role as tax holding company, handles all dealings with the tax authorities.

1.f. Other non-current assets

This caption comprises:

	30-Jun-17	31-Dec-16
Guarantee deposits for utilities	174	171
Loans to third parties	188	188
Other receivables	291	418
Total other non-current receivables	**653**	**777**
Total non-current accrued income and prepaid expenses	**-**	**-**
	653	**777**

The caption “Loans to third parties” includes a residual loan of Euro 188 thousand granted to a partner company belonging to the group of companies headed by Panariagroup Industrie Ceramiche S.p.a. as part of the project called “Industry 2015”.

“Other receivables” include Euro 123 thousand of security deposits on the rent agreements for the stores of the subsidiary Florida Tile.

1.g. Non-current financial assets

Non-current financial assets are broken down as follows:

	30-Jun-17	31-Dec-16
2007 Industrial Revenue Bond	7,417	8,833
2016 Industrial Revenue Bond	12,887	13,952
	20,304	**22,785**

Both captions refer to the subscription of bonds (IRBs - Industrial Revenue Bonds) issued by Anderson County, Kentucky (hereinafter, the “County”), which are part of a wider package of tax incentives granted to subsidise the major investments in the Lawrenceburg factory, in which the subsidiary Florida Tile Inc. operates (contractually defined as the “Porcelain Project”).

The two transactions provide a savings on property taxes on plants acquired by Florida Tile.

The 2007 Bond relates to the implementation of the first grès porcelain stoneware line in Lawrenceburg and has a duration of twenty years, while the second transaction, signed at the end of 2016, has a duration of thirty years and refers to the investment for the construction of the third grès porcelain stoneware line.

In both cases, the bonds were implemented as described below and, formally, through two distinct contracts:

- Bond issued by the County at an interest rate linked to LIBOR and subscribed by Panariagroup USA;
- Financial Lease-Back with the sale of the properties of the “Porcelain Project” from Florida Tile to the County, having the same duration and interest rate as the Bond, with redemption value at maturity of USD 1.

The repayment plans and conditions of the two contracts (Bond and Finance Lease) are identical and the related cash transfers (lease payments by Florida Tile Inc. to the County and reimbursement of Bond by the County to Panariagroup USA) will be made directly between the subsidiaries Florida Tile Inc. and Panariagroup USA without going through the County.

The entire transaction had a neutral cash-flow impact on the consolidated financial statements, since the financial asset represented by the Bond exactly matched the financial liability represented by the Finance Lease; however, the consolidated financial statements do benefit in terms of income since this transaction means that there is no property tax due on the “Porcelain Project”.

The Porcelain Project's formal transfer of ownership to the County does not involve any restriction on the use, modification, management or retirement of the plant acquired.

The decrease in value of the 2007 Industrial Revenue Bond compared to 31 December 2016 is due to an exchange loss of Euro 612 thousand, arising from translation at the year-end exchange rate, and the repayment of the annual instalment of Euro 804 thousand (around USD 846 thousand).

The decrease in value of the 2016 Industrial Revenue Bond compared to 31 December 2016 is entirely due to the exchange loss arising from translation at the year-end exchange rate.

2. CURRENT ASSETS

2.a. Inventories

As of 30 June 2017, this is composed of the following:

	30-Jun-17	31-Dec-16
Raw, ancillary and consumable materials	13,263	13,231
Work in progress	1,978	2,287
Finished products	142,245	136,834
Inventory obsolescence provision	(13,560)	(14,202)
Total finished products and raw materials	***143,926***	***138,150***
Buildings held for sale	2,685	2,674
Provision for write-down of buildings held for sale	(666)	(651)
Total buildings held for sale	***2,019***	***2,023***
	145,945	**140,173**

The overall value of inventories shows an increase (Euro +5.8 million, equal to 4.1%) compared to 31 December 2016. This increase, in percentage terms, is lower than the increase in volumes produced during the year due to the Group's commitment to optimise stock levels through careful planning of production and disposal activities.

Inventories of finished products are shown net of a provision for obsolescence of Euro 13,560 thousand at 30 June 2017, equivalent to 8.6% of inventory (Euro 14,202 thousand at 31 December 2016), based on an analysis to estimate the timing of sales and recoverable value of stocks according to historical experience and the market prospects of the various types of goods.

Inventories include Euro 2,685 thousand of buildings held for sale (mainly apartments received in exchanges), net of an estimated write-down of Euro 666 thousand, based on the estimated market value of the assets, calculated by an independent professional.

2.b. Trade receivables

The caption "Trade receivables" comprises:

	30-Jun-17	31-Dec-16
Trade receivables	103,429	85,923
Provision for bad and doubtful accounts	(6,040)	(6,020)
	97,389	**79,903**

Gross trade receivables increased by 20.4% compared to 31 December 2016. The increase in trade receivables compared with the balance at the beginning of the year is typically noted at the end of the first half because of the seasonal nature of sales. Compared to the balance at the same time last year (equal to Euro 101,322, including write-downs), it should, however, be noted that there was an increase of around 2%, considerably lower than the increase in revenues, thus highlighting an improvement in “days sales outstanding”.

“Trade receivables” include approximately Euro 5.4 million in receivables overdue by more than 120 days (accounting for approximately 5.2 % of total receivables); the amount of the provision for bad and doubtful accounts, amounting to Euro 6 million, reflects an estimate of the recovery value of the entire balance of receivables, based on information available at the time of preparation of the half-yearly consolidated financial statements.

As in previous periods, the Group did not factor any of its receivables during the first half of the year.

2.c. Due from tax authorities

The amounts due from tax authorities are made up as follows:

	30-Jun-17	31-Dec-16
VAT receivables	1,940	3,386
Advance tax payments	2,019	2,591
Other amounts due from tax authorities	2,050	2,043
	6,009	**8,020**

The Group's VAT balance is normally a credit position, mainly because of the high proportion of exports. The change for the period is due to the decrease in the VAT receivables of the Parent Company associated with the use of declarations of intent.

“Advance tax payments” refer to the credit balance between the advance payments made and income taxes due for the period.

“Other amounts due from tax authorities” mainly refers to IRES tax amounting to Euro 1.7 million, for which a refund was requested due to deductibility of IRAP from 2007 al 2011 (Law Decree 201/2011 Art. 2).

The amounts due from tax authorities do not include any items of dubious collectability.

2.d. Other current assets

The breakdown of this caption is as follows:

	30-Jun-17	31-Dec-16

Advances to social security institutions	629	102
Advances to suppliers	68	81
Rebates from suppliers and credit notes to be received	268	568
Loans to employees/third parties	204	220
Earthquake grants to be received	320	320
Other grants to be received	499	169
Receivables for energy income	1,274	1,900
Other	328	447
Total other current receivables	**3,590**	**3,807**
Total current accrued income and prepaid expenses	**2,477**	**1,830**
	6,067	**5,637**

The balance of "Advances to social security institutions", which increased from 31 December 2016, is in line with the value at the end of the first half of 2016 (Euro 602 thousand).

"Earthquake grants to be received" refers to the portion not yet received for applications submitted to the Emilia Romagna Region in relation to the damage undergone by the buildings as a result of the May 2012 earthquake and not covered by an insurance policy.

The item "Other grants to be received" increased due to the approval in the first half of 2017 of the fifth SAL related to the R&D project known as "Industry 2015".

"Receivables for energy income" refers to certain types of revenue granted with various types of energy savings subsidies, such as contributions to "energy-intensive" businesses and photovoltaic energy sales.

The caption "Other" includes Euro 189 thousand related to the amount of VAT recoverable from bad debts and Euro 25 thousand for reimbursement requests on excise duties on fuel oil.

"Accrued income and prepaid expenses" mainly relate to miscellaneous costs (interest, trade fairs, promotions, commercial costs, maintenance and rentals) that refer to subsequent periods. In particular, they increased compared to 31 December 2016 due to advance expenses related to the Cersaie exhibition that will take place in September 2017.

2.e. Current financial assets

The breakdown of this caption is as follows:

	30-Jun-17	31-Dec-16
2007 IRB – Current portion	742	804
2016 IRB – Current portion	444	481
	1,186	**1,285**

The item "IRB – Current portion" relates to the principal component of the Industrial Revenue Bonds that matures within 12 months, as more thoroughly explained in the section "Non-current financial assets".

2.f. Cash and cash equivalents

The breakdown of this caption is as follows:

	30-Jun-17	31-Dec-16
Bank and post office deposits	7,043	16,890
Cash at bank and in hand and cheques	230	105
	7,273	**16,995**

The changes in the financial position during the first half of 2017, compared to the first half of 2016, are shown in the Consolidated Cash Flow Statement shown above.

5) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. EQUITY

Equity consists of:

	30-Jun-17	31-Dec-16
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserve	4,493	4,493
Legal reserve	4,125	3,958
Translation reserve	5,774	10,858
Other reserves and retained earnings	66,221	58,233
Net profit (loss) for the period	9,580	11,215
	173,654	**172,218**

The changes in equity have already been reported in the consolidated financial statements.

To date, no stock option plans have been granted.

The main captions making up equity are discussed below.

Share capital

Share capital, subscribed and paid in, consists of 45,355,291 shares with a par value of Euro 0.50 each and refers to the Parent Company Panariagroup Industrie Ceramiche S.p.A.

Share premium reserve

The share premium reserve represents the excess of the issue price for shares with respect to their par value and includes:

- Euro 5,069 thousand in relation to the share capital increase carried out in 2000 by Parent Company Panaria Industrie Ceramiche S.p.A.;
- Euro 53,113 thousand for the increase in capital carried out in 2004 through the public offering on the stock market;
- Euro 2,601 thousand for the unused reserve for additional shares related to the portion of equity reserved for servicing the bonus share at the time the Parent Company was listed.

Revaluation reserves

The revaluation reserve amounting to Euro 4,493 thousand includes Euro 4,103 thousand for the revaluation of assets at 31 December 2000 under Law 342 of 21.11.2000 and Euro 390 thousand for revaluations carried out in application of previous laws. No deferred taxes have been provided on these reserves, which are subject to the tax deferral, since no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

Legal reserve

The legal reserve has increased compared to 31 December 2016 due to the allocation of 5% of the Parent Company's profit in the previous year.

Translation reserve

This reserve contains the exchange differences that arose on translation into euro of the financial statements of Florida Tile Inc., Panariagroup USA Inc. and Lea North America LLC, originally expressed in US dollars.

Other reserves and retained earnings

The other equity reserves are made up as follows:

	30-Jun-17	31-Dec-16
Extraordinary reserve	50,462	50,435
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings (accumulated losses) and other reserves	16,296	8,335
	66,221	**58,233**

The balance of the "Extraordinary reserve" caption increased by Euro 27 compared with 2016 due to the residual portion of the Parent Company's profit from the prior year, after the allocation to the legal reserve and the distribution of dividends of Euro 3,145.

The reserve for "Payments on capital account" relates to payments made by shareholders in prior years and not tied to future capital increases.

<u>Treasury shares</u>

As of 30 June 2017, the number of treasury shares held in portfolio was 432,234, at an average book value of Euro 3.73 each, for a total of Euro 1,614 thousand. They are unchanged compared to the previous year.

As stated in the section on Accounting Principles, these have been treated as a deduction from equity.

The outstanding treasury shares were purchased in execution of the resolution taken by the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 26 April 2005. This resolution was then renewed in the Shareholders' Meetings that approved the financial statements in the following years.

"Retained earnings (accumulated losses) and other reserves" of Euro 16,296 thousand refer principally to profits posted by subsidiaries after the preparation of the first

consolidated financial statements and not distributed, as well as to the allocation of the profit from the prior year.
No deferred taxes have been provided on these reserves, as no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

4. NON-CURRENT LIABILITIES

4.a. Liabilities for employee benefits

This caption includes the actuarial value of benefits for employees after the employment relationship is terminated, the amount of which is shown below:

	30-Jun-17	31-Dec-16
Liabilities for employee benefits	5,794	5,913

Liabilities for employee benefits refer to the "employee severance indemnity" envisaged in Italian law and calculated according to IAS 19. The principal technical methods used in this calculation are as follows:

Demographic assumptions

Retirement: 100% on reaching the so-called "AGO" (Assicurazione Generale Obbligatoria, Mandatory General Insurance) requirements

Mortality rate: IPS 55 demographic base prepared by ANIA (National Association of Insurance Companies)

Disability: INPS tables divided by age and gender

Probability of termination of employment for reasons other than death (calculated based on historical data for the last five years):

Age group	Probability
0-24	13.2%
25-29	7.1%
30-34	5.5%
35-39	3.4%
40-49	2.7%
Over 50	2.4%

Financial assumptions

The following discount rates have been used:
30-Jun-17: IBoxx Eurozone Corporate AA discount rate = 0.86 %
31-Dec-16: IBoxx Eurozone Corporate AA discount rate = 0.86 %

The *inflation rates* taken into consideration are as follows:

	2017	2016
2017	1.50%	1.50%
2018	1.50%	1.50%
2019	1.50%	1.50%
2020 and beyond	1.50%	1.50%

Changes in the provision during the half year were as follows:

Balance as of 31-Dec-16	**5,913**
Portion charged to the income statement	149
Portion charged to "Other Comprehensive Income"	-
Portion paid out during the period	(268)
Balance as of 30-Jun-17	**5,794**

4.b. Deferred tax liabilities

Details of deferred tax liabilities are as follows:

	30-Jun-17	31-Dec-16
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	1,822	1,919
- valuation of inventories	451	386
- lease back	162	172
- exchange differences on valuation	68	280
- accelerated amortisation/depreciation	5,678	6,135
- other	49	97
Deferred tax liabilities	**8,230**	**8,989**

Deferred tax liabilities allocated against the "revaluation of acquired company buildings to fair value" (Euro 1,822 thousand) refer to the recognition of acquired company assets at current values in the consolidated financial statements, net of accumulated depreciation on the acquisition date.
"Deferred tax liabilities for accelerated amortisation/depreciation" refer to the temporary difference between tax value and carrying value of amortisation/depreciation in the subsidiary Florida Tile.

4.c. Provisions for risks and charges

Provisions for risks and charges consist of:

	30-Jun-17	31-Dec-16
Provision for agents' termination indemnities	3,321	3,253
Provision for tax risks	485	485
Provision for sales returns	245	245
Other provisions	900	742
	4,951	**4,725**

The provision for agents' termination indemnities refers to the portion allocated as an employment severance indemnity for currently employed agents and, in accordance with international accounting standards, the liability has been discounted using a rate of 1.83%. The rate was applied to a projection of expected future cash flows for agents' termination indemnities based on past payments of this kind over the last 5 years. For prudential purposes, a maximum limit of 20 years was chosen for the period during which payments from this provision will be made, even though most of the agent network is made up of legal entities.

“Other provisions” include allocations for contingent liabilities; the balance as of 30 June 2017 is entirely related to the risk connected with a dispute with the Portuguese tax authorities and it reflects the best estimate of expenses to be incurred based on the analysis of comments received and the likelihood that the defensive arguments will be upheld, carried out by the Directors with the support of the Group’s tax advisers.

The “Other funds” caption mainly includes allocations to “Provision for pending disputes”.

The Parent Company's tax years from 2012 onwards are still open for assessment by the tax authorities. Management, with support from the Group's tax advisers, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements as of 30 June 2017.

Regarding risks related to taxation, the dispute regarding the use of “improper tax receivables” is still in the process of being defined, which was verified through a recovery notice issued by the Inland Revenue Agency in December 2015 against the Parent Company. At present, the risk has been classified as “possible” by the Company’s legal advisers. Therefore, pursuant to accounting standards, no provision was envisaged in the financial statements.

4.d. Other non-current liabilities

As of 30 June 2017, this caption comprised:

	30-Jun-17	31-Dec-16
Trade payables due after 12 months	815	1,483
Accrued rent - Lawrenceburg	622	670
Deferred income on grants for earthquake	969	1,153
Other	67	80
	2,473	**3,386**

Trade payables due after 12 months refer to the present value of medium/long-term payables and relate mainly to the purchase of plant and machinery on extended (greater than one year) payment terms.

The caption “Accrued rent - Lawrenceburg” is the difference between rent payments effectively made and the higher rent instalments due as calculated according to IAS. In fact, the contract provides for rent payments that increase every five years, whereas IAS 17 assumes that they are booked on a straight-line basis.

“Deferred income on grants for earthquake” includes the amount collected in previous years from the region and insurance companies for damages incurred due to the earthquake in 2012. These contributions, mostly related to investments included in fixed assets, are charged to the income statement based on the useful life of the investments to which they refer.

4.e. Due to banks

The caption “Due to banks” comprises:

	30-Jun-17	31-Dec-16
Medium/long-term loans	58,429	60,694
	58,429	**60,694**

The caption “Medium/long-term loans” refers to the portion due after one year of medium/long-term loans obtained mainly by the Parent Company, at a floating interest rate linked to the Euribor.

The following guarantees are present in favour of the lending bank:

- Mortgage guarantee, equal to Euro 37,500 thousand, issued by the affiliate Immobiliare Gemma S.p.a;
- Surety, equal to Euro 3,750 thousand, issued by the Parent Company Finpanaria S.p.a.
- Mortgage guarantee, equal to Euro 1,100 thousand, for mortgage on a property held for sale.

The Company pays a remuneration for these guarantees.

4.f. Other non-current financial payables

The caption “Other non-current financial liabilities” consists of:

	30-Jun-17	31-Dec-16
IRB finance lease - 2007	7,417	8,833
IRB finance lease - 2016	12,887	13,952
Loans from public entities	2,765	3,091
Other leases	264	417
	23,333	**26,293**

The “IRB finance lease” captions mainly relate to the Industrial Revenue Bond operation, thoroughly explained in caption 1.g “Non-current financial assets”, and associated with the package of tax incentives obtained for the investments in the Lawrenceburg factory of Florida Tile Inc.

The item “Loans from public entities” refers to loans granted by the Portuguese government with favourable conditions based on investment plans.

As required by IFRS 7, the following table reports the due dates envisaged by the repayment plans for the above financial payables *(4.e. Due to banks and 4.f. Other non-current financial liabilities)*:

	Medium/Long-term loans	Leases	IRB	Total
12 months	**21,543**	**1,431**	**(1,186)**	**21,788**
2nd Half of 2018	10,945	570	(446)	11,069
2019	17,043	1,326	(1,186)	17,183
2020	13,558	1,186	(1,186)	13,558
2021	6,535	1,186	(1,186)	6,535
2022	3,134	1,186	(1,186)	3,134
2023	3,134	1,186	(1,186)	3,134
2024	2,956	1,186	(1,186)	2,956
2025	2,778	1,186	(1,186)	2,778
2026	1,111	1,186	(1,186)	1,111
After 10 years	0	10,370	(10,370)	0
Medium/long-term	**61,194**	**20,568**	**(20,304)**	**61,458**
Financial payables	**82,737**	**21,999**	**(21,490)**	**83,246**

Credit amounts refer to the current and long-term portions of the IRB transactions that were previously discussed, whose maturities are linked to lease amortisation plans.

The Group does not have any negative pledges or covenants on debt positions outstanding at the end of the half-year.

5. CURRENT LIABILITIES

5.a. Trade payables

Changes in trade payables are as follows:

	30-Jun-17	31-Dec-16
Trade payables	84,907	83,647

Trade payables refer primarily to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. The slight increase over the previous year is due to the increase in production for the first half of 2017, partially offset by payments made on major investments in 2016.

5.b. Due to tax authorities

This caption comprises:

	30-Jun-17	31-Dec-16
Withholding tax	2,504	3,008
Income taxes	850	67
Other	437	245
	3,791	**3,320**

The increase in income taxes for the period is mainly due to the Portuguese business units depleting the remaining tax losses from previous years and, hence, the recognition of current tax payables for income taxes for the half year.

5.c. Other current liabilities

As of 30 June 2017, this caption comprised:

	30-Jun-17	31-Dec-16
Due to social security institutions	3,447	4,090
Due to employees	9,668	7,210
Due to customers	5,514	3,941
Due to agents	8,010	7,100
Financial derivatives – negative fair value	191	361
Amounts due for EUAs to be purchased	-	418
Other	395	948
Total current payables	**27,225**	**24,068**
Deferred income for capital grants	124	156
Accrued interest expense	6	24
Deferred income from earthquake insurance payouts	371	371
Other	298	158
Total current accrued expenses and deferred income	**799**	**709**
	28,024	**24,777**

“Due to employees” increased compared to the closing balance of the previous year due to the thirteenth-month's pay accrued in the first half of the year that will be paid at year-end.

The increase in “Due to agents” reflects the growth in sales for the period.

“Amounts due for EUAs to be purchased” as of 31 December 2016 referred to the value of greenhouse gas emission allowances, purchased in 2017 against CO_2 emissions in 2016.

"Deferred income from earthquake insurance payouts" consists of a portion of insurance payouts and government grants relating to extraordinary maintenance as a consequence of the earthquake and which have been capitalised. This part of the indemnity is, therefore, recognised in the income statement, based on the useful life of the assets to which the work refers.

5.d. Due to banks

Short-term amounts due to banks are as follows:

	30-Jun-17	31-Dec-16
Current account overdrafts	4,905	4,985
Export advances	11,000	8,169
Short-term loans	3,454	1,000
Medium/long-term loans	20,973	21,654
	40,332	**35,808**

The changes in financial position during the first half of 2017, compared with the first half of 2016, are shown in the Consolidated Cash Flow Statement contained in the earlier section with the consolidated financial statements.

The Group's total borrowing facilities granted by banks as of 30 June 2017 amounted to Euro 113.6 million, of which Euro 19.4 million had been drawn down at that date.

"Medium/long-term loans" include the current portion of unsecured loans taken out between 2009 and 2017, of which Euro 19,512 thousand refers to the Parent Company and Euro 1,461 thousand to the American business unit. These loans are discussed in the section entitled "Due to banks" under non-current liabilities.

The Group did not carry out any factoring or securitisation transactions during 2016 or in previous years.

5.e. Other current financial payables

Other short-term financial payables are made up as follows:

	30-Jun-17	31-Dec-16
IRB finance lease - 2007	742	804
IRB finance lease - 2016	444	481
Loans from public entities	570	431
Other leases	245	266
	2,001	**1,982**

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as of 30 June 2017:

- "Interest rate swap" with a notional underlying principal of Euro 937 thousand to hedge interest rates on outstanding loans obtained during 2012, with maturity term on 31 August 2017.
- "Interest rate swap" with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on a portion of total outstanding loans, equal to the underlying principal, obtained during 2016, with maturity term on 31 December 2019.
- "Interest rate swap" with a notional underlying principal of Euro 20,000 thousand to hedge interest rates on a quota of the total outstanding loans, equal to the underlying principal, obtained during 2016, with maturity term on 31 December 2020.

These contracts are shown at fair value under "Other current liabilities" for a total of Euro 191 thousand relative to the mark to market at the reporting date. Adjusting these instruments to fair value at 30 June 2017 involved booking income of Euro 42 thousand to the income statement for the period.

As regards the financial derivative contract, expiring on 31 December 2020, for an underlying principal of Euro 20,000 thousand, effectiveness tests were performed on 30 June 2017 which confirmed these derivatives met the hedging requirements set out by IAS 39. Losses from the hedging instrument were therefore recognised using the cash flow hedge method in equity for Euro 87 (net of tax effects).

The impact of the new IFRS 13 relating to the adjustment of fair value to include counterparty risk is not significant for the Group's financial derivative transactions.

GUARANTEES AND COMMITMENTS

As of 30 June 2017, the following guarantees had been granted:

- to the Kentucky governmental authority for the production activity of the Lawrenceburg plant of Florida Tile for USD 1.2 million;
- to AGL Panaria Private Limited for INR 14.9 million on bank overdrafts (about Euro 0.2 million).

The guarantees received from third parties are specifically disclosed in the notes on the balance sheet captions to which such guarantees refer.

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales

The Group's revenues are analysed by geographic area below:

	30-Jun-17	30-Jun-16
Italy	39,594	37,781
Abroad	170,235	158,829
(Customer rebates)	(2,991)	(2,815)
	206,838	**193,795**

Net revenues from sales increased by 6.7%, from Euro 193,795 thousand as of 30 June 2016 to Euro 206,838 thousand as of 30 June 2017 (Euro +13 million).

More details can be found in the Directors' Report on Operations.

6.b. Other revenues

"Other revenues" are made up as follows:

	30-Jun-17	30-Jun-16	Change
Expense recoveries (displays, transport)	3,589	3,554	35
Energy income	961	480	481
Grants	829	87	742
Out-of-period income	156	95	61
Gains on the sale of property	50	38	12
Damage compensation	40	448	(408)
Capitalisation of internal costs	3	649	(646)
Other	55	373	(338)
	5,683	**5,724**	**(41)**
% of Value of Production	***2.6%***	***2.9%***	**(0.3%)**

"Expense recoveries" contain mainly transport and sample costs recharged to customers.

"Capitalisation of internal costs", recognised in 2016 for Euro 649 thousand, relate to the Group employees, Italian and American, currently involved in implementing the new SAP management system.

"Energy income" includes revenues related to the Parent Company's membership in consortia that collect and make available gas storage and the availability of the associates' energy burden, income from the remuneration of electricity produced by their own photovoltaic systems, income from the assignment of Energy Efficiency Certificates and income from preferential tariffs granted to "energy-intensive" companies.

"Grants" refer to various subsidies, including contributions received for research and development of an industrial nature and to the period's portion of contributions obtained as

a refund of damages of the 2012 earthquake (against amortisation of improvements carried out and capitalised).
In particular, contributions for research and development projects include:

- "Energy Efficiency - Industry 2015" tender, promoted by the Ministry of Economic Development, for the realisation of a photovoltaic tile prototype;
- Regional contribution to R&D activities in areas affected by the 2012 earthquake.

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	30-Jun-17	% of V.o.P.	30-Jun-16	% of V.o.P.
Raw materials	30,001	13.5%	26,191	13.1%
Finished products	22,612	10.2%	22,619	11.3%
Packaging	8,157	3.7%	6,618	3.3%
Price lists/Catalogues	490	0.2%	690	0.3%
Change in raw material inventories	(194)	(0.1)%	101	0.1%
Other	15	0.0%	140	0.1%
	61,081	**27.4%**	**56,359**	**28.2%**

The increase in this caption substantially reflects the increase in production, compared to the first half of 2016, already described in the Directors' Report.
"Finished products" is mainly related to the purchase of ceramic tiles by third parties.

7.b. Services, leases and rentals

"Services, leases and rentals" are made up as follows:

	30-Jun-17	% of V.o.P.	30-Jun-16	% of V.o.P.
Utilities	17,810	8.0%	18,073	9.1%
Transportation	14,296	6.4%	13,326	6.7%
Sub-contract work	8,808	4.0%	6,044	3.1%
Commissions	8,426	3.8%	7,727	3.9%
Maintenance	5,328	2.4%	5,147	2.6%
Property rental	5,219	2.3%	4,952	2.5%
Commercial expenses and advertising	4,684	2.1%	3,978	2.0%
Industrial services	4,639	2.1%	3,949	2.0%
Consulting fees	3,905	1.8%	1,934	1.0%
Lease of other fixed assets	1,734	0.8%	1,342	0.7%
Insurance	724	0.3%	595	0.3%
Directors' and statutory auditors' fees	389	0.2%	556	0.3%
Other	6,638	3.0%	5,258	2.6%
	82,600	**37.1%**	**72,881**	**36.5%**

"Property rental" mainly includes:

- Rents of Euro 2,725 thousand that Panariagroup Industrie Ceramiche S.p.A. pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the company carries out its business. The rent contract covers a contractual period of eight years (with tacit renewal on the first expiry for another eight years), for an annual rent initially set at Euro 4,500 thousand, increased each year according to ISTAT statistics. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

- Rent that Florida Tile Inc. pays for the land and building of its plant in Lawrenceburg, its head office and the premises used as branches for the retail sale of finished products amount in total to Euro 2,229 thousand.

The significant increase in "Consulting fees" is related to the training and start-up costs incurred in the launch of SAP software in the Group's American companies, which took place at the beginning of January.

7.c. Personnel costs

Personnel costs increased from Euro 46,876 thousand as of 30 June 2016 (23.5% of value of production) to Euro 49,265 thousand as of 30 June 2017 (22.1% of value of production).

Personnel costs can be broken down as follows:

	30-Jun-17	**30-Jun-16**
Wages and salaries	37,812	35,807
Social security contributions	9,967	9,290
Employee severance indemnities and other funds	1,276	1,336
Other personnel costs	210	443
	49,265	**46,876**

The average workforce in the first half of 2017 consisted of 1,697 individuals, an increase of 41 employees compared with the average figure for 2016.

The increase in cost exceeds the increase in the workforce due to the higher number of hours worked by existing employees, mainly due to the greater use of production facilities in the first half of 2017.

7.d. Other operating expenses

“Other operating expenses” are made up as follows:

	30-Jun-17	% of V.o.P.	30-Jun-16	% of V.o.P.
Contingent liabilities	92	0.0%	120	0.1%
Gifts	44	0.0%	15	0.0%
Trade association fees	56	0.0%	52	0.0%
Indirect taxes	811	0.4%	640	0.3%
Office materials	265	0.1%	194	0.1%
Losses on disposals	1	0.1%	1	0.0%
Other	438	0.2%	1,042	0.5%
	1,707	**0.8%**	**2,064**	**1.0%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

The value of depreciation and amortisation increased compared to the first half of 2016, from Euro 9,135 thousand as of 30 June 2016, to Euro 10,615 thousand as of 30 June 2017, due to the considerable investments made over the last two years. Note that no changes were made in rates or original repayment plans.

8.b. Provisions and impairments

The caption “Provisions and impairments”, amounting to Euro 1,084 thousand, includes an allocation for estimated future charges of Euro 576, allocations made for agents' termination indemnities totalling Euro 201 thousand, allocations for inventory write-downs of Euro 167 thousand, and write-downs on receivables of Euro 140 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	30-Jun-17	30-Jun-16
Interest on short-term loans	(79)	(37)
Interest expense on medium/long-term loans	(384)	(502)
Financial expense on employee severance indemnity liability	(30)	(57)
Fair value losses on derivatives	-	(376)
Bank charges and credit card fees	(452)	(432)
Other	(412)	(336)
Total financial expense	**(1,357)**	**(1,740)**
Bank current account interest income	-	3
Interest income on receivables	11	2
Fair value gains on derivatives	42	-
Total financial income	**53**	**5**
TOTAL FINANCIAL INCOME AND EXPENSE	**(1,304)**	**(1,735)**
% of Value of Production	*-0.6%*	*-0.9%*
Exchange losses	(2,023)	(1,961)
Exchange gains	897	1,913
TOTAL EXCHANGE GAINS AND LOSSES	**(1,126)**	**(48)**
% of Value of Production	*-0.5%*	*+0.0%*
Financial losses on discounting	(3)	(27)
DISCOUNTING GAINS (LOSSES)	**(3)**	**(27)**
% of Value of Production	*-0.0%*	*-0.0%*
Impairment losses of interests in JV	(28)	(208)
TOTAL EQUITY INVESTMENT OPERATIONS	**(28)**	**(208)**
% of Value of Production	*-0.0%*	*-0.1%*
Total financial income (expense)	**(2,461)**	**(2,018)**
% of Value of Production	**-1.1%**	**-1.0%**

Financial income and expense - Sensitivity analysis

As previously stated in the section on "Financial risk", the Group is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.
The following is a sensitivity analysis to show the impact on the 2017 first half financial statements (pre-tax profit), assuming more favourable and less favourable interest and exchange rates.

Interest rates

Rate	Higher (Lower) Pre-tax profit € mn
+ 0.50%	(0.2)
+ 1.00%	(0.5)
+ 2.00%	(0.9)

Exchange rates (EUR/USD)

Rate	Higher (Lower) Pre-tax profit € mn
0.90	+2.8
1.00	+1.2
1.10	+0.1
1.20	-1.3
1.30	-2.2

* Assumption of a constant rate for the entire half-year.

10. INCOME TAXES

10.a. Income taxes

Income taxes pertaining to this half year are equal to Euro 4,144 thousand, with a tax rate of 30.2% (calculated on “Pre-tax profit”).

As envisaged by IAS 34, income taxes were recognised based on the best estimate of the annual weighted average of the tax rate expected for the entire year.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, basic earnings per share are disclosed in the footnotes to the income statement: Euro 0.211 per share (loss per share of Euro 0.119 as of 30 June 2016).

Basic and diluted earnings (losses) per share are the same because there are no diluting factors.

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

No significant events/transactions were recorded during the half-year that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. The Company’s Management considered the section “Significant non-recurring events and transactions” as not pertinent to the ordinary management of the company.

POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

No events/transactions were recorded during the half-year that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. As specified in this Communication “atypical and/or unusual transactions mean those transactions which by virtue of their significance/size, nature of the counterparties, purpose of the transaction, method of determining the transfer price and timing (proximity to period end) may give rise to doubts concerning the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of company assets, and the protection of minority shareholders”.

RELATED PARTY TRANSACTIONS

The “Regulation containing provisions on related party transactions”, adopted by CONSOB Resolution no. 17221 of 12 March 2010 and subsequently amended by Consob Resolution no. 17389 of 23 June 2010, implemented Art. 2391-*bis* of the Italian Civil Code.

Hence, in a resolution dated 23 April 2014, the Board of Directors implemented the related party procedure, which was drafted taking into account the instructions subsequently provided by Consob for applying the new regulation by Letter no. DEM / 10078683 of 24 September 2010.

The purpose of this procedure is to determine the criteria to be followed to identify, review, and approve transactions to be carried out by Panariagroup, or its subsidiaries, with related parties, in order to ensure transparency and the substantive and procedural propriety of the transactions themselves.

Transactions with related parties are identified in accordance with the Consob Regulation.

The Group’s transactions with related parties are principally in relation to the parent company **Finpanaria S.p.A**. (Parent Company that does not carry out management and coordination activities) and **Immobiliare Gemma S.p.A.** (subsidiary owned by Finpanaria), as well as individuals acting as directors and managers, their family members and any subsidiary companies. Transactions are of a commercial and real estate nature for the rental of properties in which the Parent Company's activities are carried out and guarantees provided.

During 2017, there were no transactions with related parties other than Finpanaria S.p.A. and Immobiliare Gemma S.p.A.

Transactions with related parties are summarised below:

INCOME STATEMENT

(in thousands of euro)

REVENUES	Finpanaria	Imm.Gemma	Total
Services	16	13	**29**
Total revenues	**16**	**13**	**29**

Revenue for services refers to consulting performed by the Parent Company for Finpanaria S.p.A. and Immobiliare Gemma for administrative and organisational services.

COSTS	Finpanaria	Imm.Gemma	Total
Rental expense	-	2,725	**2,725**
Commissions for guarantees issued	8	29	**37**
Total costs	**8**	**2,754**	**2,762**

Rental expense refers to the rents paid for all the buildings used by Panariagroup Industrie Ceramiche S.p.A.'s production and logistics activities.

In accordance with Consob Communication DEM/6064293, the impact of related party transactions on the Company's results and cash flows is shown below:

	% of Value of Production	% of pre-tax profit	% of operating cash flow*
Revenues	0.01%	0.21%	0.12%
Costs	1.24%	20.13%	11.88%

* before changes in working capital

BALANCE SHEET
(in thousands of euro)

	Finpanaria	Imm.Gemma	Total
Receivables	-	-	-
Payables	-	-	-
Due from (to) tax authorities	1,729	-	1,729
Net receivable (payable)	**1,729**	**-**	**1,729**

In relation to tax receivables from Finpanaria, the Parent Company has, in turn, a receivable of the same amount from the tax authority, not yet collected.

All related party transactions are carried out on an arm's length basis.
As such, we would call your attention to the fact that a procedure on related party transactions is now in place in accordance with the Consob Regulation adopted with Resolution 17221 of 12 March 2010 and subsequent amendments.

ATTACHMENTS

The following attachments contain additional information to that provided in the explanatory notes, of which they form an integral part:

- Statement of Changes in Intangible assets and Goodwill from 1 January 2017 to 30 June 2017
- Statement of Changes in Property, Plant and Equipment from 1 January 2017 to 30 June 2017
- Statement of Changes in Financial Position
- Directors and Officers
- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Sassuolo, 4 August 2017

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of Changes in Intangible Assets and Goodwill from 1 January 2017 to 30 June 2017

Panariagroup - Consolodated financial statements

Statement of changes in intangible assets and goodwill
from 1 January 2016 to 30 June 2017
(in thousands of Euro)

	Concessions, licenses, trademarks	Intangible assets in progress	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2017	**2,150**	**11,817**	**-**	**13,967**	**8,139**
Net increases	210	1,105		1,315	-
Net drecreases and impairment	(1)			(1)	-
Amortisation	(641)			(641)	-
Reclassifications	6,663	(6,407)		256	-
Exchange differences on foreign subsidiaries	(116)	(529)		(645)	-
Balance at 30/06/2017	**8,265**	**5,986**	**0**	**14,251**	**8,139**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of Changes in Property, Plant and Equipment from 1 January 2017 to 30 June 2017

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1 January 2016 to 30 June 2017
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2017	**23,688**	**67,882**	**17,435**	**10,590**	**119,595**
Net increases	444	6,074	2,402	2,115	11,035
Net decreases and impairment	(32)	(15)	(2)	-	(49)
Amortisation	(450)	(7,345)	(2,179)		(9,974)
Reclassifications	-	1,736	6,115	(8,107)	(256)
Exchange differences on foreign subsidiarie	-	(1,561)	(594)	(764)	(2,919)
Balance at 30/06/2016	**23,650**	**66,771**	**23,177**	**3,834**	**117,432**

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of Changes in Financial Position

Details of net financial position are provided in accordance with Consob Communication DEM/6064293 of 28 July 2006:

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

NET FINANCIAL POSITION
(THOUSANDS OF EURO)

		30-June-2017	31-Dec-2016
A	Cash	(230)	(105)
B	Other Cash and cash equivalents	(7,043)	(16,890)
C	Securities held for sale	0	0
D	**Liquidity (A+B+C)**	**(7,273)**	**(16,995)**
E	**Short-term financial assets**	**(1,186)**	**(1,285)**
F	Due to banks	19,359	14,154
G	Current portion of long-term loans	20,973	21,654
H	Other short-term financial debt	2,001	1,982
I	**Short-term financial indebtedness (F+G+H)**	**42,333**	**37,790**
J	**Net short-term financial indebtness**	**33,874**	**19,510**
K	Non-current portion of long-term loans	58,429	60,694
L	Due to bondholders	0	0
M	Other long-term financial debt	23,333	26,293
N	Long-term financial indebtedness (K+L+M)	**81,762**	**86,987**
Z	**Long-term financial assets**	**(20,304)**	**(22,785)**
O	**Net financial indebtness (J+N+Z)**	**95,332**	**83,712**

The current and non-current financial assets are related to the IRB operations as previously commented

The Group does not have any negative pledges or covenants on debt positions outstanding at the end of the half-year.

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup Industrie Ceramiche S.p.A.
Paolo Mussini	Vice Chairman of the Board and CEO	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman and Ordinary administration of the Cotto d'Este Division.
Andrea Mussini	Vice Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giuliano Pini	CEO	Ordinary administration of Panariagroup Industrie Ceramiche S.p.A.
Giuliano Mussini	Director	Non-executive
Silvia Mussini	Director	Non-executive
Daniele Prodi	Director	Non-executive
Sonia Bonfiglioli	Director	Independent non-executive
Tiziana Ferrari	Director	Independent non-executive
Francesca Bazoli	Director	Independent non-executive

Powers of extraordinary administration are held exclusively by the Board of Directors in its entirety.

The board of Directors'term in office expires at the AGM that approves the 2017 financial statement.

For details of the remuneration of the Directors, please refer to the "*Report of the Board on the remuneration*"

Board of Statutory Auditors

Name	Office
Sergio Marchese	Chairman of the Board of Statutory Auditors
Francesca Muserra	Standing Auditor
Piergiovanni Ascari	Standing Auditor
Vittorio Pincelli	Alternate Auditor
Fabrio Andreoli	Alternate Auditor

Compensation Commitee

Name
Enrico Palandri
Sonia Bonfiglioli
Paolo Onofri

Internal Control Commitee

Name
Paolo Onofri
Enrico Palandri
Sonia Bonfiglioli

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

EY S.p.A.

EXPLANATORY NOTES - ATTACHMENT 5

- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

ATTACHMENT 3C-ter

Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

1. The undersigned, Paolo Mussini, Emilio Mussini, and Giuliano Pini, as Managing Directors, and Damiano Quarta, as Financial Reporting Manager, of Panariagroup Industrie Ceramiche S.p.A. hereby certify, taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 30 June 2017.

2. No matters of particular importance in this regard arose during the period.

3. We also certify that:

3.1 The consolidated financial statements:

a) have been prepared under the applicable international accounting standards endorsed by the European Union, pursuant to EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) match the balances shown in the books of account and accounting entries;

c) give a true and fair view of the equity, economic and financial position of the Issuer and all companies included in the consolidation.

3.2 The Directors' Report on Operations includes a reliable analysis of performance and the results of operations, and of the general situation of the Issuer and the companies included within the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Sassuolo, 4 August 2017

Managing Directors	Financial Reporting Manager
Paolo Mussini Emilio Mussini Giuliano Pini	Damiano Quarta

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06/2017