ANNUAL REPORT 2017

DRAFT

FINANCIAL STATEMENTS
31 DECEMBER 2017
DIRECTORS' REPORT

Panariagroup Industrie Ceramiche Spa

Panariagroup is an Italian multinational leader in innovation and beauty.

OUR MISSION
We specialise in the manufacturing and sale of ceramic tiles to promote beauty and innovation.
• Our team generates sustainable value for shareholders, employees and business partners, in compliance with the company's corporate environment.
• Our focus is on research and innovation to serve the beauty and quality of our products.
• Our goal is to meet our private and professional clients' high expectations of wellness and aesthetics, in both buildings and architecture.

OUR VALUES

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

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

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

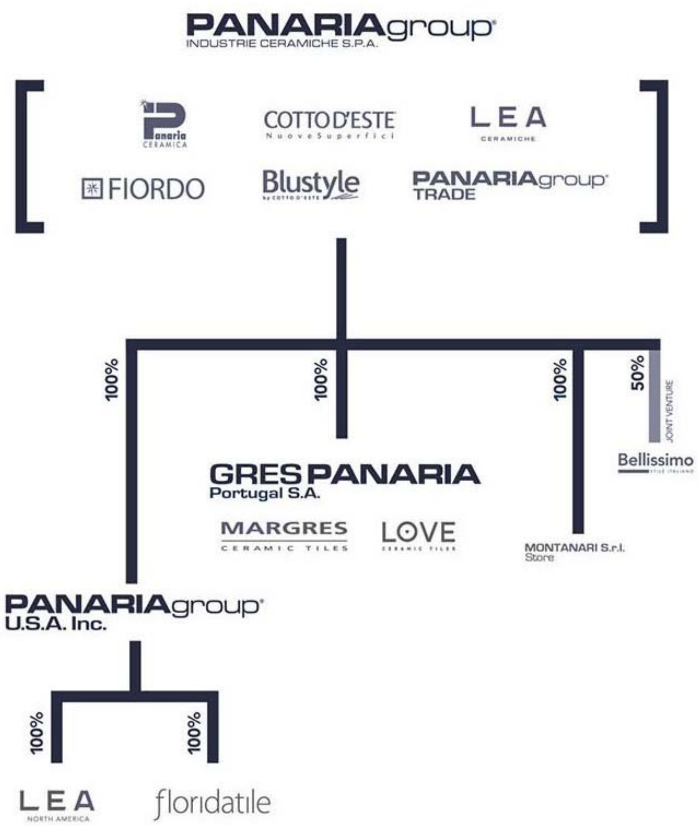
RELIABILITY
The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

Panariagroup is a leading manufacturer of ceramics tiles for floors and walls. It has over 1,600 employees, 10,000 customers, 6 manufacturing plants (3 in Italy, 2 in Portugal and 1 in the United States) and a presence, through its broad and extensive sales network, in over 120 countries worldwide.

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

STRUCTURE OF THE GROUP

The structure of the Group as at 31 December 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 floor and wall coverings under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. All brands are focused on the high-end and deluxe market segment and mainly sell porcelain stoneware product lines, both in Italy and abroad.

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

Furthermore, the Group participates in a Joint Venture Company (JVC) based in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

DIRECTORS AND OFFICERS

Board of Directors

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

Board of Statutory Auditors

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

Independent Auditors

EY S.p.A.

RESULTS AND SIGNIFICANT EVENTS IN 2017

Dear Shareholders,

The international economic cycle strengthened in 2017.

The recovery of investments in most economies fostered trade exchanges, underpinning growth in both advanced and emerging countries.

This recovery was favoured by a series of factors; the confidence levels of businesses remained high thanks to positive expectations concerning production and orders, as well as to the increased use of production capacity and loan terms, which should remain favourable over the medium term.

Amongst the main advanced economies, recovery in Europe strengthened, while US growth continued at a moderate pace and will be affected by the launch of measures, announced and already implemented by the US Government.

Prospects for emerging countries are becoming even more dynamic thanks to the strengthening of raw material exporting countries (especially Brazil and Russia) and the continuing growth in India and Chine (albeit the development rhythm of the Chinese economy is still featuring a downward trend).

As regards the construction sector, a recovery in investments in the building segment has been reported, backed-up by favourable loan terms and stronger revenue dynamics connected with the increase in employment.

Moreover, the downward adjustments in the property markets, especially in some countries of the Eurozone, are likely to stop: in the Italian market the sector shows the first revitalisation symptoms, above all in the most important towns.

Segment framework: the performance of Italian competitors

The Italian ceramics industry consolidated its structure in a framework of strong investments in new technologies, driven by tax incentive measures within the "Industria 4.0" package, with the aim of consolidating its position of global leader, in a positive, albeit increasingly competitive context.

In 2017, world GDP growth, combined with the growth in international trade, are comforting elements for an industry, like the ceramics one, which is oriented to international markets.

In 2017, the Italian ceramics industry consolidated the upward trend which commenced in 2015, with a growth in sales on foreign markets of around 2.5% and 1.5% on the domestic market.

In the European Union member countries, the general growth approached 4%.

The recovery in the Russian area, already reported at end 2016, is worth noting.

Asia countries reported fluctuating trends, with a good growth in the Far East markets (China, Hong Kong and Japan) and a contraction in the Middle East markets.

In the US market, Italian competitors reported an overall reduction in turnover of around 5%. In Africa too, Italian exports reported a fall (-11%), while in Oceania sales reported 3% growth.

Results

Results for 2017 can be summarised as follows:

- **Net revenues for sales** amounted to Euro 201.5 million (Euro 189.3 in 2016, with a growth of 6.4%).
- **Gross operating profit** amounted to Euro 20.0 million (Euro 14.0 million in 2016, with an increase of 43%).
- **Net operating profit** amounted to Euro 7.9 million (more than tripled with respect to 2016, amounting to Euro 2.5 million)
- **Net profit** amounted to Euro 4.8 million (Euro 3.3 million in 2016, with an increase of 44%).

The year 2017 ended with a positive economic result, a clear improvement compared to the previous year.

The good growth of turnover, combined with an increase in production volumes, determined a significant increase in profit margins.

The increase in sales, achieved in 2017 and equal to 6.4%, is higher than the average figure reported within the Italian competitors, which stood at around 2%.

In 2017, different trends were reported on the various markets.
The very good performance of the Italian market is to be noted, with 9% growth, clearly superior to competitors (+1.5%), thanks to the new collections that were particularly appreciated.
The European markets showed a more limited growth (around 2%), with a consolidation in the results in the main EU markets and a good development in the Eastern Europe countries.
On the whole, Asian markets reported a slight reduction, mainly due to the results obtained in Middle East, which were affected by geopolitical tensions, while Far Eastern markets reported a good growth trend.
Lastly, the excellent results obtained in Oceania, with 18% growth, are worth noting.

The initiatives carried out over the last three years, aimed at improving commercial and organisational effectiveness turned out to be very successful. Despite the significant positive improvement in results, we still deem that the thrust to further improve turnover and profit margins is not yet exhausted.

PANARIAgroup

Significant events in the period

In 2017 as well, Panariagroup continued its development, upgrading and efficiency improvement plan for industrial plants.

In particular, in the Fiorano Modenese production facility, to complete the huge investment made in the previous year, along with the installation of the third line of laminated stoneware, new product finishing lines were installed for cutting, grinding, polishing and backing. These new plants further widened the offer of this type of products in a still expanding market.
A portion of investments made in the Italian plants has already the technical characteristics to comply with the "Industria 4.0" standards. In 2018, along with further investments, the interconnection implementation activities are expected, which are necessary to obtain tax benefits.

Always with respect to organisation, starting from the second half of 2017 the Group established a commercial Division focused on large projects, made up by a team of promoters and a team of sellers, capable of direct interface with architects and designers to support them in the search for technical and aesthetic solutions that use ceramics not only for traditional flooring and covering, but also in high-tech uses such as ventilated covering of façades, floating floorings, furniture tops, etc.
A structure, made up by technicians, researchers and engineers, operates together with this Division in the aim of backing design activities.
We deem that a dedicated structure would be in a better position to seize all opportunities of this particular market segment, which usually does not use traditional retail channels, but requires direct dialogue with large customers.
The complete product line developed by our Group, allows us to offer a great number of solutions for both interior design and furniture and outdoor architecture.

During 2017, Panariagroup presented its first Sustainability Report, prepared in compliance with the highest international reference standards for non-financial reporting (GRI), which is the first result of a process of reflection and awareness of our role in terms of corporate social responsibility.
Since its establishment, our Group stood out for its ethical way of conducting its business, respecting resources and people, maintaining its commitment to create long-term value, with special attention to all stakeholders and resources used in manufacturing processes. We are firmly convinced that this approach to business represents a strategic lever for differentiation with respect to other players in the sector, not only for industrial and product aspects, but also for our way of "doing things".
The drivers behind consumer decisions are increasingly oriented towards products and companies that operate with a sustainable approach. All this is correct and consistent with the mature approach to consumption in the modern world, and to which we adhere willingly.

ANALYSIS OF PERFORMANCE

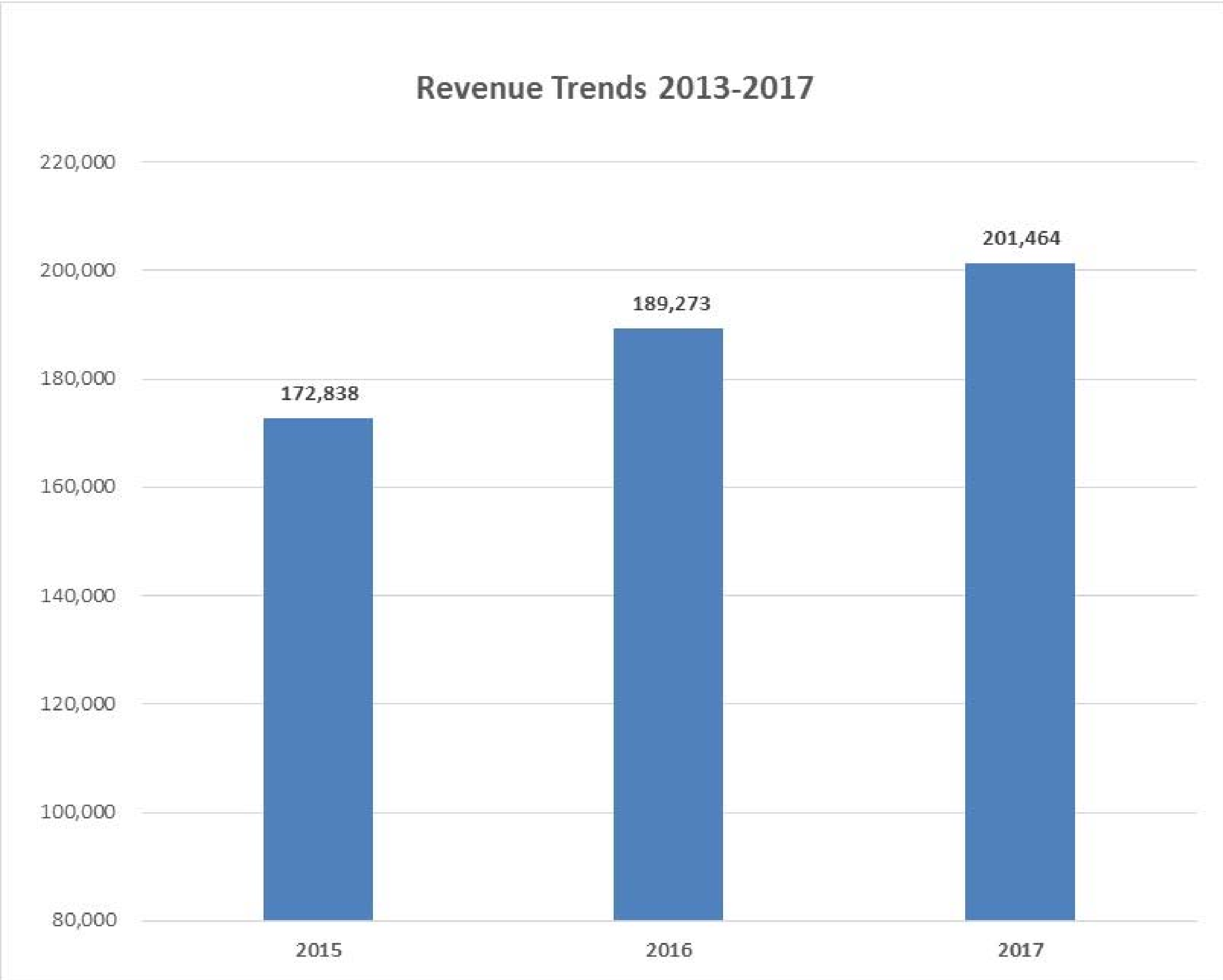
Reclassified Income statement as at 31 December 2017 compared with 31 December 2016
(in thousands of Euro)

	31-Dec-2017	%	31-Dec-2016	%	var.
Revenues from sales and services	**201,464**	**92.26%**	**189,273**	**93.62%**	**12,191**
Change in inventories of finished products	7,732	3.54%	2,437	1.21%	5,295
Other revenues	9,165	4.20%	10,455	5.17%	(1,290)
Value of Production	**218,361**	**100.00%**	**202,165**	**100.00%**	**16,196**
Raw, ancillary and consumable materials	(56,518)	-25.88%	(52,373)	-25.91%	(4,145)
Services, leases and rentals	(88,924)	-40.72%	(83,303)	-41.21%	(5,621)
Personnel costs	(50,913)	-23.32%	(50,830)	-25.14%	(83)
Other operating expenses	(2,012)	-0.92%	(1,674)	-0.83%	(338)
Cost of production	**(198,367)**	**-90.84%**	**(188,180)**	**-93.08%**	**(10,187)**
Gross operating profit	**19,993**	**9.16%**	**13,985**	**6.92%**	**6,008**
D&A expenses	(11,543)	-5.29%	(10,684)	-5.28%	(859)
Provisions from unexpected events	(579)	-0.27%	(787)	-0.39%	208
Net operating profit	**7,872**	**3.61%**	**2,515**	**1.24%**	**5,357**
Financial income and expense	(1,525)	-0.70%	1,444	0.71%	(2,969)
Pre-tax profit	**6,347**	**2.91%**	**3,959**	**1.96%**	**2,388**
Income taxes estimated	(1,521)	-0.70%	(620)	-0.31%	(901)
Net profit (loss) for the period	**4,826**	**2.21%**	**3,339**	**1.65%**	**1,487**

Revenues

During the year, Panariagroup has continued its growth in business volumes, which characterised the last few years.

The graph below shows the remarkable increase in turnover over the 2015-2017 period, with a growth of Euro 28.6 million and an annual average growth of 8%.



Principal markets

In **Europe**, the Company achieved a growth of over 2%.
We are highly satisfied of the results obtained on the German market, the most important for the sector in our continent, where we are reaping the benefits of a stronger monitoring policy for the various distribution channels.
The results obtained in Eastern Europe are also worth noting, which increased by more than 20%, driven primarily by the more than positive performance recorded in Russia.
The impact of the European markets on total revenues was **41%**.

The results on the **Italian market** were excellent, up by around 9%.
This figure is clearly superior to the general sector performance in Italy, which rose by 1.5% overall.
Given the fact that, in the last few years, the Italian market was characterised by little dynamism, competitors witnessed a progressive reduction of commercial investments in this area. This fostered our consolidated and widespread presence on the territory, while allowing us to acquire further market shares.
While considering positive property domestic market forecasts, we are confident that this local presence would allow us to benefit from this opportunity.
The impact of the Italian market on total revenues was **35%**.

The sales in the **Asian market** decreased by 3.6%.
Good results, particularly in the Far East (Japan, Hong Kong and China), were obtained in areas less conditioned by geopolitical factors, whilst tensions in the Middle East affected our Company and the ceramics industry in general.
The impact of the Asian markets on total revenues was **11%**.

As regards the **other markets (America, Oceania and Africa)**, turnover reported a significant growth (+20.3%), an evidence of the efforts made to effectively achieve also markets in far off countries.
The performance in Oceania was excellent, proving to be higher than the trend for the sector, and allowing the Group to achieve a 9% weighting on imports from Italy.
Unlike other markets in this sector, the African market reported good results.
With regard to the US market, it should be noted that Panariagroup has very good indirect coverage in the area thanks to its subsidiary Florida Tile, so it has very limited direct coverage of specific brands.
The impact of the other markets on total revenues was **13%**.

The total impact of export stood at **65%** of overall turnover.

We confirmed, also in 2017, a balanced geographical distribution, with an important presence in areas featuring high-end product consumption (Europe and Asia) and a continuous development in countries that are characterised by building yards which require the use of high-tech products, typical of our productions.

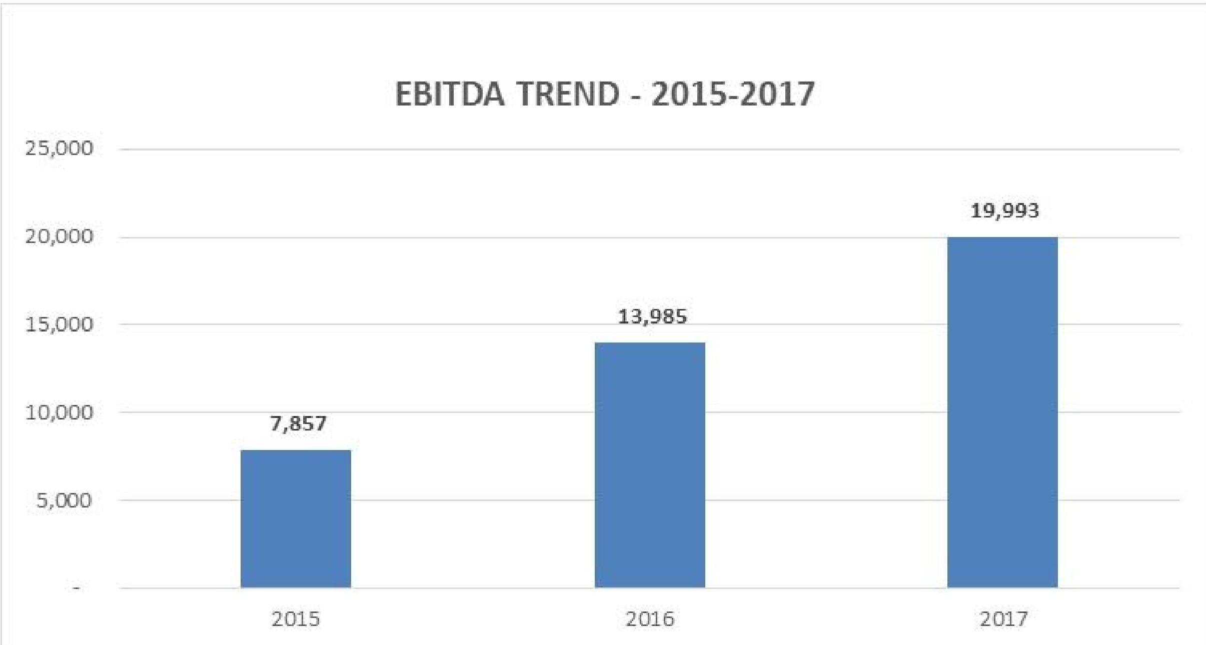
Performance of the Sales Divisions

The Brand Divisions (Panaria, Lea, Cotto d'Este) taken together achieved a growth in turnover compared with the previous year, with the Cotto d'Este Division in particular standing out.
The multi-brand Panariagroup Trade organisation, which is operating on the markets of Asia, Oceania and Eastern Europe, also in 2017 achieved a double-digit result, thus confirming a consolidated growth trend.
The Private Label (Third-Party) Division further increased its turnover, thanks to the strengthening of the partnership with some important customers and the development of new supplies.
The reliability of Panariagroup, under the industrial and services viewpoint, is one of the successful factors for this sales channel.

Operating results

Gross operating profit came to Euro **20.0 million**, representing 9.2% of the value of production (Euro 14.0 million as at 31 December 2016), with 43% growth.

The increase in Gross Operating Profit has been significant over the last two years, and confirms the measures undertaken to recover profit margins that generated good results.



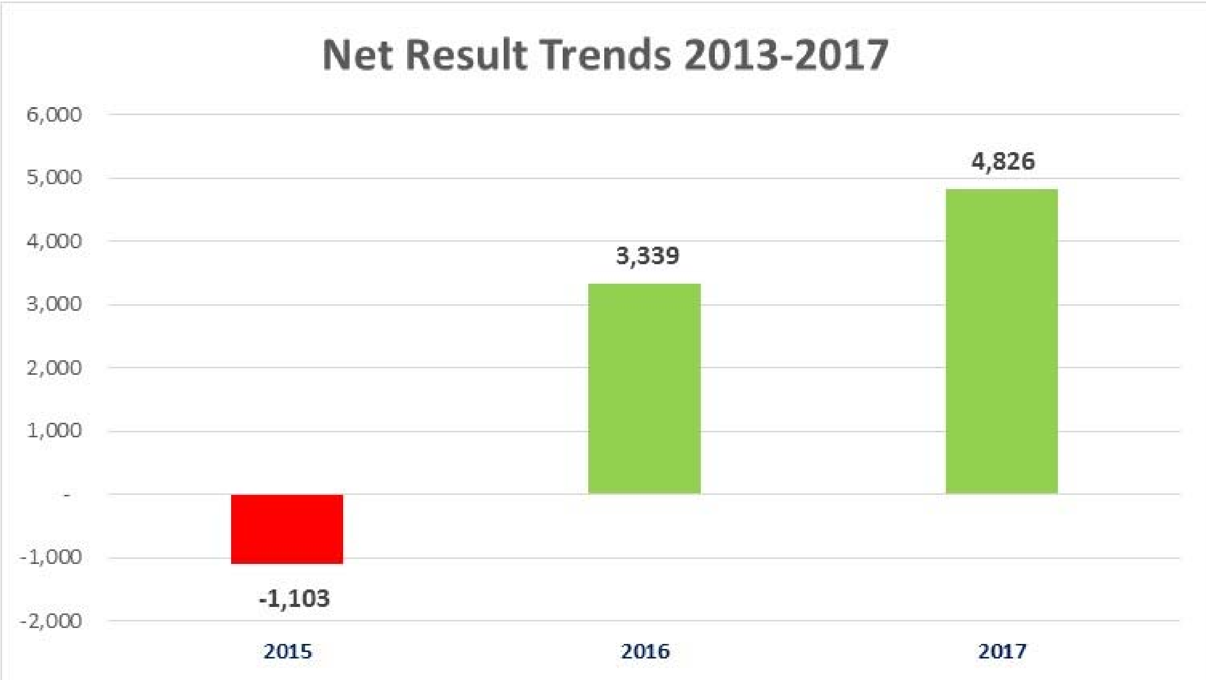
The increase in sales triggered a virtuous circle, which allowed to recover the use of production capacity at more adequate levels, with a progressive reduction in production costs and higher market competitiveness.

Net operating profit amounted to Euro 7.9 million (Euro 2.5 million as at 31 December 2016), with an increase of Euro 5.4 million.

In 2017, amortisation/depreciation increased by Euro 0.9 million, with an almost unchanged impact of amortisation/depreciation on the value of production compared to the previous year.

The impact of financial income and expenses on the value of production stood at reduced levels, equal to 0.7% of turnover.
The cost of loans remained very low, due to the level of interest rates and the careful management of treasury, with an overall cost of Euro 0.6 million.
Conversely, the Company suffered from the negative effects of the Euro/USD exchange rate trends, in the amount of Euro 2.4 million, partially offset by the dividend paid by the subsidiary Gres Panaria Portugal (Euro 1.5 million).

The **Net Result** was a profit of Euro 4.8 million (Euro 3.3 million as at 31 December 2016).



The recovery is also confirmed by the performance of the net result, which, after a negative 2015, returned to good levels of net profit.

We deem that there are good chances to further improve profit margins over the next few years, thanks to the initiatives focused on the commercial, industrial and organisational development.

ANALYSIS OF THE BALANCE SHEET

(in thousands of Euro)

	31-Dec-2017	31-Dec-2016
Inventories	79,961	71,931
Receivable from customers	68,607	70,971
Other current assets	8,557	10,235
CURRENT ASSETS	**157,125**	**153,137**
Payables due to suppliers	(48,023)	(48,410)
Other current liabilities	(22,623)	(22,524)
CURRENT LIABILITIES	**(70,646)**	**(70,934)**
NET WORKING CAPITAL	**86,479**	**82,203**
Intangible assets	5,857	5,155
Tangible assets	43,972	43,120
Equity Investments and other financial assets	90,112	89,897
FIXED ASSETS	**139,941**	**138,172**
Receivables due after following year	20,733	5,795
Liabilities for employee benefits	(5,431)	(5,818)
Provision for risk and charge	2,186	3,367
Other payables due after the year	(2,880)	(2,336)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**14,608**	**1,008**
NET CAPITAL EMPLOYED	**241,028**	**221,383**

Short term financial assets	(2,510)	(9,948)
Short term financial debt	20,684	28,258
NET SHORT TERM FINACIAL DEBT	**18,174**	**18,310**
Mid-Long term financial debt	75,460	57,452
NET FINANCIAL POSITION	**93,634**	**75,762**
Group Shareholders' Equity	147,394	145,621
SHAREHOLDERS' EQUITY	**147,394**	**145,621**
TOTAL SOURCES OF FOUNDS	**241,028**	**221,383**

As required by CONSOB Communication DEM/6064293 of 28 July 2006, here attached is a table with the reconciliation between the reclassified equity-financial position, shown in the balance sheet above, and the related financial statements.

Net working capital

The net working capital increased by 5% compared to the previous year, from Euro 82.2 to Euro 86.5 million. This increase was determined primarily by the growth of stocks. The decrease in sales, occurred in the second half of 2017, resulted in an increase in stocks, albeit a slowdown in production was implemented in the last period of the year.
During 2018, we deem we will gradually absorb this effect, while returning in line with our targets, taking account of the fact that the increase in stocks refers to products featuring fast stock rotation levels.

Non-current assets

Non-current assets have increased by Euro 1.8 million since the beginning of the year, due to the following:

- investments for the period of around Euro 13.1 million.
- amortisation and depreciation for the period of Euro 11.5 million.
- increase in financial fixed assets, amounting to Euro 0.2 million.

The main investments concerned the new dryer, the purchase of the latest digital equipment, the construction of new cutting and grinding lines and the changes in the logistics of flows of materials within the Fiorano Modenese facility.
A portion of implementations carried out in 2017 features the “interconnectivity” requirements set forth by the “Industria 4.0” program, which grants important tax incentives connected to a greater deductibility of amortisation/depreciation. To this purpose, the Group confirms its willingness in carrying on the modernisation of plants in 2018, with the completion and effective interconnection of machinery. It is worth specifying that an important initiative in terms of energy efficiency was carried out in the Finale Emilia plant with the installation of LED lighting replacing neon fluorescent lights.

The Company, also in 2017, continued to invest in projects for the reduction of energy consumption to safeguard environment and safety at workplace.

Net financial position

Financial cash flow
(thousands euro)

	31-Dec-2017	31-Dec-2016
Net financial position (debt) - beginning	**(75,762)**	**(69,825)**
Net Result for the period	4,826	3,339
D & A	11,543	10,684
Non-monetary changes	3,505	2,408
Internal operating Cash flow	**19,874**	**16,431**
Change in net working capital and other mid-long term financial asset/debt	(4,530)	(9,825)
Net Investments	(13,354)	(13,357)
Distribution of dividend	(3,145)	-
Changes in Equity	65	(531)
Change in loans to Subsidiaries	(15,356)	2,514
Financial exchange differences	(1,426)	(1,169)
Net financial position (debt) - final	**(93,634)**	**(75,762)**

The net financial position reported an increased indebtedness of around Euro 18 million. However, it should be noted that the prevailing portion of debt was used to finance subsidiaries.
Thanks to its rating and its consolidated relations with domestic banks, Panariagroup can benefit from credit lines at more favourable terms than Group companies abroad.

SEGMENT REPORTING

The application of IFRS 8 – Operating segments became compulsory on 1 January 2009.
This 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.
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 disclosures required by paragraphs 32-33 of IFRS 8 are shown below. In particular:
- The breakdown of revenues by principal geographical area is presented in the earlier section on "Revenues",
- The breakdown of total assets by geographical location is shown below:

ASSETS	Italy	Europe	USA	Other	31-Dec-2017
NON-CURRENT ASSETS	**57,622**	**42,973**	**66,346**	**284**	**167,225**
Intangible assets	5,857				5,857
Property, plant and equipment	43,972				43,972
Financial assets	500	42,598	46,729	284	90,111
Deferred tax assets	6,552				6,552
Other non-current assets	148				148
Non-current Financial Assets	593	375	19,617		20,585
CURRENT ASSETS	**120,172**	**15,288**	**15,240**	**8,935**	**159,635**
Inventories	79,961	-	-	-	79,961
Trade Receivables	30,644	13,788	15,240	8,935	68,607
Due from tax authorities	3,253	-	-	-	3,253
Other current assets	3,804	-	-	-	3,804
Current Financial Assets	-	1,500			1,500
Cash and cash equivalents	2,510	-	-	-	2,510
TOTAL ASSETS	**177,794**	**58,261**	**81,586**	**9,219**	**326,860**
Net investments 2017	**13,102**	**-**	**-**	**-**	**13,102**

RESEARCH AND DEVELOPMENT ACTIVITIES

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2017.
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/deluxe end of the ceramic tile market.

The new product lines created in 2017, and in particular those presented at the now regular event of CERSAIE 2017 were much appreciated. We trust that the successful outcome of these innovations will benefit sales as well as the Group's overall results.

TRANSACTIONS WITH PARENT COMPANIES, AFFILIATES AND RELATED PARTIES

Related-party transactions are explained in the explanatory notes to the 2017 financial statements.
Furthermore, in compliance with CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that the related party transactions described in the explanatory notes almost all relate to the lease of industrial premises used by the Parent Company for the conduct of its business.

TRANSACTIONS WITH SUBSIDIARIES

As at 31 December 2017 the companies controlled by Panariagroup are:

- **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.
- **Panariagroup USA Inc.**, based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. Set up as a financial holding company for the United States area, it owns 100% interests in Florida Tile Inc. and Lea North America LLC.
- **Lea North America LLC.**, with head office in Delaware, USA, and share capital of USD 20,000 fully paid-in
- **Florida Tile Inc.**, with head office in Delaware, USA and share capital of USD 34,000,000 fully paid-in
- **Montanari Ceramiche S.r.l.**, with head office in Finale Emilia, Modena (Italy), share capital of Euro 48,000, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.

The investee companies realized the following results in 2017:

- Gres Panaria Portugal S.A. realized a net turnover of Euro 74.0 million and reported a profit of Euro 5.9 million after depreciation and amortisation, provisions and taxes for Euro 6.2 million; total assets of the Portuguese subsidiary amount to Euro 81.1 million and equity, including the 2017 profit, is Euro 43.6 million.
- The subsidiary Panariagroup USA realized a net turnover of USD 8.3 million, with a loss of USD 0.1 million after depreciation and amortisation, provisions and taxes for USD 0.1 million; total assets of the company amount to USD 100.1 million and equity, including the 2017 loss, is USD 77.6 million.
- The subsidiary Lea North America realized a net turnover of USD 10.7 million and shows a balance after amortisation and depreciation, provisions and taxes for USD 0.3 million; total assets of the US subsidiary amount to USD 19.1 million and equity is USD 6.2 million.
- The subsidiary Florida Tile Inc. realized a net turnover of USD 138.3 million and realized a profit of USD 0.9 million after depreciation and amortisation, provisions and taxes for USD 8.0 million; total assets of the US subsidiary amount to USD 133.5 million and equity, including the 2017 profit, is USD 20.9 million.
- The subsidiary Montanari Ceramiche S.r.l. realized a net turnover of Euro 1.7 million and realized a net loss of Euro 16 thousand; the sum of depreciation and amortisation, allocations and taxes is equal to Euro 50 thousand. Total assets amount to Euro 1,081 thousand and equity, including the 2017 loss, is Euro 35 thousand.

Trade transactions between our Company and the subsidiaries, regulated at market conditions, can be summed up as follows (values in thousands of Euro).

Nature	Description	GPP	PGU	FTI	LNA	MON
Income Statement - Revenues	*Sale of Finished Products*	*5,728*	*1,716*	*3,321*	*5,368*	*254*
Income Statement - Revenues	*Services*	*792*	*151*	*1,391*	*141*	*8*
Income Statement - Costs	*Purchase of finished products*	*5,511*				*27*
Income Statement - Costs	*Chargeback of costs*	*520*				
Income Statement - Income	*Interest on loans*	*22*	*34*	*159*	*88*	*1*
Income Statement - Income	*Dividends*	*1,485*				
Balance Sheet - Liabilities	*Liabilities*	*1,908*		*8*		*14*
Balance Sheet - Receivables	*Receivables*	*3,662*	*2,063*	*6,795*	*5,518*	*119*
Balance Sheet - Receivables	*Loans*	*1,875*	*1,723*	*13,579*	*4,315*	*450*

Legenda

GPP = Gres Panaria Portugal
PGU = Panariagroup USA
FTI = Florida Tile
LNA = Lea North America
MON = Montanari Ceramiche

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 2016, the Company has renewed a stock buy-back programme which stood as follows as at 31 December 2016:

Treasury shares

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

The number of treasury shares in portfolio is the same as at 31 December 2016, as no purchases or sales were made during 2017.
Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2016; 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, it is reported that during 2017 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

BUSINESS OUTLOOK

The 2017 results are to be considered as positive, with a further good growth in turnover and profit margins.

For 2018, an overall favourable performance is expected, starting moderately and improving in the second half of the year.

For the year 2018, we expect to continue our growth in sales and profit margins. We are confident in a stronger growth in the Italian market and further improvement of productivity in production facilities.

An important development lever that we implemented is represented by the “Contract & Key Account” structure, aimed at the large works channel which, in our opinion, has good chances to increase our market share if our quality and expertise are better used, both in terms of products and people.
This is a channel where competition is restricted to the most structured operators, owing product technologies and types that are not available to everybody due to the important investments required for their development.

Panariagroup is to date one of the leading companies in the global ceramics sector, in terms of internationalisation, technology, ability to interpret market trends and business management.
We confirm our medium/long-term strategies aimed at maintaining the Group’s current position amongst the leading market players. In this sense, therefore, backed strongly by the values and excellence for which the Italian ceramics industry has always been renowned, our ability to invest in new technologies, product innovation and new markets will be of key importance.

Ceramics is increasingly becoming a “universal” material, with ever-growing demand in a wider range of uses compared to traditional uses.
Its quality, technical and aesthetic qualities and its competitive cost, render this material interesting for applications that, in the past, were covered mainly by other types of products: “outdoor” flooring, kitchen tops and, in more general terms, as a replacement to marble, natural stone and wood, as well as many other uses. These trends that are very clearly emerging and from which benefits are expected over the next few years, further drive us to pursue in our growth strategies.

As for last year, also for 2017 the Panariagroup Board of Directors will propose the payment of a dividend to shareholders, to confirm the business ability to generate profits, not only used for self-financing, but also in view of an adequate remuneration to shareholders.

REPORT ON CORPORATE GOVERNANCE AND THE OWNERSHIP STRUCTURE

In compliance with the disclosure requirements of Borsa Italiana Spa and Consob, Panariagroup Industrie Ceramiche S.p.A. has prepared the “Report on Corporate Governance and the Ownership Structure”, which can be consulted on its website www.panariagroup.com in the section entitled Company Documents (as required by art. 123-bis of Law Decree 58 of 24 February 1998).

CONSOLIDATED NON-FINANCIAL REPORT

Pursuant to provisions set forth by article 5, paragraph 3, letter b, of Legislative Decree 254/2016, the Company prepared a separate consolidated non-financial report. The consolidated non-financial report for 2017, drawn up according to the “GRI Standards” reporting criteria (or according to “GRI G4 Sustainability Reporting Guidelines”) is available on the Group’s website.

RISK MANAGEMENT

In compliance with all reporting requirements for listed companies, the Law 262/2005 has amended the Issuers Regulation 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

The macro-economic context is an element of potential risk for the Group, with particular reference to the specific business sector, significantly influenced by the economic situation. The construction sector in general is strongly related to the investment propensity of families and industries and is therefore influenced by the uncertainties arising from the current economic situation.

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 skills 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 approximately 70% of the share capital - it is reasonable to assume that the possibility of the Group's principal managers leaving the company 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, which is difficult 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. Therefore, their increase, which is not currently expected, could have a negative impact on the financial results of the Group in the short term.

BREXIT RISK

The result of the Brexit referendum could have impact also on ceramic consumption on the UK market and on the flow of ceramic material import.

We highlight that Panariagroup made sales in 2017 for Euro 5.9 million (equal to about 1.5% of the total Sales), then eventual changes, even significant, on our sales in this area should not have relevant economic and financial impact for the Group.

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 regards 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 2017 was equal to 1,705 individuals, an increase of 49 employees compared with the average number in 2016.

ADHESION TO THE SIMPLIFICATION REGIME AS PER ARTICLES 70 AND 71 OF THE ISSUERS REGULATION

Panariagroup Industrie Ceramiche S.p.A., adhered to the opt-out regime envisaged by the Consob Issuers regulation, availing itself of the faculty to be exempt from obligations to publish disclosure documents as set out on the occasion of significant mergers, demergers, acquisitions and sales, as well as capital increases through assets in kind.
Pursuant to provisions set forth in the regulation above, the Company provided for the supply of adequate disclosures.

CONSOB RESOLUTION NO. 11971 OF 14 MAY 1999

In compliance with the provisions of this resolution, the following table reports the interests held in Panariagroup and its subsidiaries 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 such directors, statutory auditors, general managers and key management personnel:

- ART. 79 -

TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 31-December-2017

Name and Last Name	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 31-Dec-2017	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	393,039	19,000	113,650	298,389	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	5,000	500	12,380	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**	**24,000**	**198,544**	**1,134,906**		

SIGNIFICANT EVENTS OCCURRED AFTER YEAR END

No significant events are to be reported.

Warnings

The consolidated financial statements for the year ended 31 December 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 2015, with the exception of those international accounting standards which entered into effect as at 1 January 2016 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as at 1 January 2016"; 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 31 December 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 Profit: 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 Profit: 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 at 31 December 2017
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as at 31 December 2016
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

Allocation of the net result

We propose to Shareholders' Meeting to distribute the profit for the year as follows:
- 5% of net profit to legal reserve;
- payment of a dividend equal to 0.07 Euro per share, gross of tax retentions, excluding treasury shares held at the date the dividends are paid;
- the remaining amount to the extraordinary reserve.

We ask that you vote in favour of approval of the financial statements together with this Directors' Report.

The Chairman

Emilio Mussini

Sassuolo, 16 March 2018

PANARIAgroup

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position

figures at 31 December 2017

STATEMENT OF FINANCIAL POSITION - IFRS

ATTIVO	31-Dec-17	RIF
NON-CURRENT ASSETS	**167,225**	
Intangible assets	5,857	ANC1
Property, plant and equipment	43,972	ANC2
Financial assets	90,112	ANC3
Deferred tax assets	6,552	ANC4
Other non-current assets	148	ANC5
Non-current Financial Assets	20,585	ANC6
CURRENT ASSETS	**159,635**	
Inventories	79,961	AC1
Receivables from customers	68,607	AC2
Due from tax authorities	3,253	AC3
Other current assets	3,804	AC4
Current Financial Assets	1,500	AC5
Cash and cash equivalents	2,510	AC6
TOTAL ASSETS	**326,860**	

LIABILITIES AND EQUITY	31-Dec-17	
EQUITY	**147,394**	PN
Share capital	22,678	
Reserves	119,890	
Net profit (loss) for the year	4,826	
NON-CURRENT LIABILITIES	**88,136**	
Liabilities for employee benefits	5,431	PNC1
Deferred tax liabilities	625	PNC2
Provisions for risks and charges	3,741	PNC3
Other non-current liabilities	2,880	PNC4
Due to banks and other sources of finance	75,460	PNC5
CURRENT LIABILITIES	**91,330**	
Payables due to suppliers	48,023	PC1
Due to tax authorities	2,324	PC2
Other current liabilities	20,299	PC3
Due to banks and other sources of finance	20,684	PC4
TOTAL LIABILITIES AND EQUITY	**326,860**	

RECLASSIFIED FINANCIAL POSITION

	31-Dec-17	RIF
Inventories	79,961	AC1
Receivables from customers	68,607	AC2
Other current assets	8,557	AC3+AC4+AC5
CURRENT ASSETS	**157,125**	
Payables due to suppliers	(48,023)	PC1
Other current liabilities	(22,623)	PC2+PC3
CURRENT LIABILITIES	**(70,646)**	
NET WORKING CAPITAL	**86,479**	
Intangible assets	5,857	ANC1
Property, plant and equipment	43,972	ANC2
Equity Investments and other financial assets	90,112	ANC3
FIXED ASSETS	**139,941**	
Receivables due beyond 12 months	20,733	ANC5+ANC6
Liabilities for employee benefits	(5,431)	PNC1
Provision for risk and charge and deferred taxes	2,186	PNC2+PNC3+ ANC4
Other liabilities due beyond 12 months	(2,880)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**14,608**	
NET CAPITAL EMPLOYED	**241,028**	
Short term financial assets	(2,510)	AC6
Short term financial indebtedness	20,684	PC4
NET SHORT TERM FINACIAL INDEBTEDNESS	**18,174**	
Mid-Long term financial debt	75,460	PNC5
NET FINANCIAL POSITION	**93,634**	
Equity	147,394	PN
EQUITY	**147,394**	
TOTAL SOURCES OF FOUNDS	**241,028**	

PANARIAgroup

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position

figures at 31 December 2016

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	31-Dec-2016	RIF
NON-CURRENT ASSETS	**152,516**	
Intangible assets	5,155	ANC1
Property, plant and equipment	43,120	ANC2
Financial assets	89,897	ANC3
Deferred tax assets	8,550	ANC4
Other non-current assets	146	ANC5
Non-current Financial Assets	5,649	ANC6
CURRENT ASSETS	**163,085**	
Inventories	71,931	AC1
Receivables from customers	70,971	AC2
Due from tax authorities	4,751	AC3
Other current assets	4,359	AC4
Current Financial Assets	1,125	AC5
Cash and cash equivalents	9,948	AC6
TOTAL ASSETS	**315,601**	

LIABILITIES AND EQUITY	31-Dec-2016	
EQUITY	**145,621**	PN
Share capital	22,678	
Reserves	119,604	
Net profit (loss) for the year	3,339	
NON-CURRENT LIABILITIES	**70,788**	
Liabilities for employee benefits	5,818	PNC1
Deferred tax liabilities	1,280	PNC2
Provisions for risks and charges	3,903	PNC3
Other non-current liabilities	2,336	PNC4
Due to banks and other sources of finance	57,452	PNC5
CURRENT LIABILITIES	**99,192**	
Payables due to suppliers	48,410	PC1
Due to tax authorities	2,379	PC2
Other current liabilities	20,145	PC3
Due to banks and other sources of finance	28,258	PC4
TOTAL LIABILITIES AND EQUITY	**315,601**	

RECLASSIFIED FINANCIAL POSITION

	31-Dec-2016	RIF
Inventories	71,931	AC1
Receivables from customers	70,971	AC2
Other current assets	10,235	AC3+AC4+AC5
CURRENT ASSETS	**153,137**	
Payables due to suppliers	(48,410)	PC1
Other current liabilities	(22,524)	PC2+PC3
CURRENT LIABILITIES	**(70,934)**	
NET WORKING CAPITAL	**82,203**	
Intangible assets	5,155	ANC1
Property, plant and equipment	43,120	ANC2
Equity Investments and other financial assets	89,897	ANC3
FIXED ASSETS	**138,172**	
Receivables due beyond 12 months	5,795	ANC5+ANC6
Liabilities for employee benefits	(5,818)	PNC1
Provision for risk and charge and deferred taxes	3,367	PNC2+PNC3+ ANC4
Other liabilities due beyond 12 months	(2,336)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**1,008**	
NET CAPITAL EMPLOYED	**221,383**	
Short term financial assets	(9,948)	AC6
Short term financial indebtedness	28,258	PC4
NET SHORT TERM FINACIAL INDEBTEDNESS	**18,310**	
Mid-Long term financial debt	57,452	PNC5
NET FINANCIAL POSITION	**75,762**	
Equity	145,621	PN
EQUITY	**145,621**	
TOTAL SOURCES OF FOUNDS	**221,383**	

RECONCILIATION BETWEEN THE SUMMARY OF CASH FLOWS AND THE IFRS-FORMAT CASH FLOW STATEMENT

Note:
The summary of cash flows presented in the Directors' Report measures the change in total net financial indebtedness, while the IFRS-format cash flow statement measures the change in Cash and cash equivalents.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	31-Dec-2017	
Cash	(6)	
Other Cash and cash equivalents	(2,504)	
Securities held for sale	0	
Liquidity	**(2,510)**	**(*)**
Short-term financial assets	**0**	
Due to banks	1,653	
Current portion of long-term loans	19,031	
Other short-term financial debt	0	
Short-term financial indebtedness	**20,684**	
Net short-term financial indebtness	**18,174**	
Non-current portion of long-term loans	75,460	
Due to bondholders	0	
Other long-term financial debt	0	
Long-term financial indebtedness	**75,460**	
Long-term financial assets	**0**	
Net financial indebtness	**93,634**	**(**)**
Liquidity	**(2,510)**	**(*)**
(Subject of the IFRS Cash Flow Statement)		
Total NFP	**93,634**	**(**)**
(Subject of the financial cash flows as per Directors Report)		

PANARIAGROUP
FINANCIAL STATEMENT
CASH FLOW STATEMENT - IFRS
(THOUSAND OF EURO)

(in thousands of euro)	31 dec 2017	
A - OPERATIONS		
Net Results of the period	4,826	A
Amortisation and impairment	11,543	B
Perdite (Utili) su cessioni immobilizzazioni	(143)	C
Deferred tax liabilities (assets)	1,343	D
Net change in the provision for serverance indemnities	48	E
Net change in provisions	(739)	F
Investments depreciation	185	G
Exchange differences	2,811	H
Cash flow (absorption) from operations prior to changes in working capital	*19,874*	
(Increase)/Decrease in trade receivables	2,788	
(Increase)/Decrease in inventories	(7,877)	
(Increase)/Decrease in trade payables	(387)	
Employee severance indemnity disbursement	(408)	
Net change in other current assets/liabilities	2,739	
Trade Exchange differences	(1,385)	
Flusso (assorbimento) di cassa dell'attività operativa per variazioni del capitale circolante	*(4,530)*	I
TOTAL (A) CASH FLOW FROM OPERATIONS	**15,344**	
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(12,110)	J
Net investment in intangible assets	(992)	K
Net investment in financials assets	(400)	L
Sales of tangible fixed assets	148	M
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(13,354)**	
C - FINANCING ACTIVITY		
Distribution of dividends	(3,145)	N
Other changes in equity	65	O
Change in net debt (net of new medium / long-term loans)	(6,532)	
New loans	41,000	
Loan repayments	(24,034)	
Net change in intercompany loans	(15,356)	P
Financial Exchange differences	(1,426)	Q
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**(9,428)**	
Opening net cash	**9,948**	
Net change in short-term net cash (A+B+C)	**(7,438)**	
Closing net cash	**2,510**	(*)

Financial cash flow
(thousands euro)

	31-Dec-2017	
Net financial position (debt) - beginning	**(75,762)**	
Net Result for the period	4,826	A
D & A	11,543	B
Net Variation Provisions	652	D+E+F
Other Non monetary changes	2,853	C+G+H
Internal operating Cash flow	**19,874**	
Change in net working capital and other assets and liabilities	(4,530)	I
Net investments	(13,354)	J+J+L+M
Distribution of dividends	(3,145)	N
Changes in Equity	65	O
Net change in intercompany loans	(15,356)	P
Financial Exchange differences	(1,426)	Q
Net financial position (debt) - final	**(93,634)**	(**)

FINANCIAL STATEMENTS

Panariagroup Industrie Ceramiche Spa

PANARIAGROUP Industrie Ceramiche S.p.A.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(VALUES EXPRESSED IN EURO)

Note	ASSETS	31-Dec-2017	31-Dec-2016
	NON-CURRENT ASSETS	**167,224,513**	**152,516,250**
1.a	Intangible assets	5,856,698	5,154,539
1.b	Property, plant and equipment	43,971,579	43,120,493
1.c	Equity investments	90,111,492	89,896,875
1.d	Deffered tax assets	6,552,199	8,549,664
1.e	Other non-current assets	147,824	145,913
1.f	Non-current Financial Assets	20,584,721	5,648,765
	CURRENT ASSETS	**159,635,152**	**163,084,615**
2.a	Inventories	79,961,345	71,930,691
2.b	Receivables from customers	68,607,068	70,971,379
2.c	Due from tax authorities	3,252,712	4,750,606
2.d	Other current assets	3,804,206	4,358,614
2.e	Current Financial Assets	1,500,000	1,125,000
2.f	Cash and cash equivalents	2,509,822	9,948,325
	TOTAL ASSETS	**326,859,665**	**315,600,864**

Note	LIABILITIES	31-Dec-2017	31-Dec-2016
3	**EQUITY**	**147,393,749**	**145,621,001**
	Share capital	22,677,646	22,677,646
	Reserves	119,890,601	119,604,318
	Net profit for the year	4,825,503	3,339,038
	NON-CURRENT LIABILITIES	**88,135,786**	**70,788,307**
4.a	Liabilities for employee benefits	5,430,672	5,817,909
4.b	Deferred tax liabilities	624,635	1,279,577
4.c	Provisions for risks and charges	3,740,965	3,903,269
4.d	Other non-current liabilities	2,879,248	2,335,729
4.e	Due to banks and other sources of finance	75,460,266	57,451,822
	CURRENT LIABILITIES	**91,330,130**	**99,191,556**
5.a	Payables due to suppliers	48,022,963	48,409,678
5.b	Due to tax authorities	2,324,388	2,378,694
5.c	Other current liabilities	20,298,587	20,144,915
5.d	Due to banks and other sources of finance	20,684,192	28,258,270
	TOTAL LIABILITIES AND EQUITY	**326,859,665**	**315,600,864**

PANARIAgroup

PANARIAGROUP Industrie Ceramiche S.p.A.

CONSOLIDATED INCOME STATEMENTS - IFRS
(VALUES EXPRESSED IN EURO)

Note		31-Dec-2017		31-Dec-2016	
6.a	**REVENUES FROM SALES AND SERVICES**	**201,463,775**	**92.3%**	**189,273,053**	**93.6%**
	Change in inventories of finished products	7,731,982	3.5%	2,437,106	1.2%
6.b	Other revenues	9,164,803	4.2%	10,455,150	5.2%
	VALUE OF PRODUCTION	**218,360,560**	**100.0%**	**202,165,310**	**100.0%**
7.a	Raw materials	(56,518,281)	-25.9%	(52,372,716)	-25.9%
7.b	Services, leases and rentals	(88,923,832)	-40.7%	(83,303,127)	-41.2%
	of whic, related party transactions	*(5,478,050)*	*-2.5%*	*(5,449,441)*	*-2.7%*
7.c	Personell costs	(50,913,168)	-23.3%	(50,830,441)	-25.1%
7.d	Other operating expenses	(2,012,110)	-0.9%	(1,673,997)	-0.8%
	PRODUCTION COSTS	**(198,367,390)**	**-90.8%**	**(188,180,281)**	**-93.1%**
	GROSS OPERATING PROFIT	**19,993,170**	**9.2%**	**13,985,028**	**6.9%**
8.a	Amortisation and depreciation	(11,542,710)	-5.3%	(10,683,565)	-5.3%
8.b	Provisions and writedowns	(578,812)	-0.3%	(786,797)	-0.4%
	NET OPERATING PROFIT	**7,871,648**	**3.6%**	**2,514,666**	**1.2%**
9.a	Financial income (expense)	(1,525,077)	-0.7%	1,444,288	0.7%
	PRE-TAX PROFIT	**6,346,571**	**2.9%**	**3,958,954**	**2.0%**
10.a	Income taxes	(1,521,069)	-0.7%	(619,917)	-0.3%
	NET PROFIT	**4,825,503**	**2.2%**	**3,339,038**	**1.7%**

PANARIAGROUP

STATEMENT OF COMPREHENSIVE INCOME
(VALUES EXPRESSED IN EURO)

	31-Dec-2017	31-Dec-2016
NET PROFIT (LOSS) FOR THE PERIOD	**4,825,503**	**3,339,038**
Other components of comprehensive income that will be reclassified later to after-tax profit	**71,496**	**(248,587)**
Profit (loss) on interest rate hedging transactions accounted in accordance with the Cash Flow Hedge method	85,060	(290,050)
Profit (loss) on Joint Venture - accounted with Equity Method	(13,564)	41,463
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	**20,363**	**(282,171)**
(loss) Net Profit from revaluation of defined benefits and plans	20,363	(282,171)
COMPREHENSIVE INCOME FOR THE PERIOD	**4,917,362**	**2,808,279**

PANARIAgroup

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.
FINANCIAL STATEMENT
CASH FLOW STATEMENT - IFRS
(THOUSAND OF EURO)

(in thousands of euro)	31 - Dec 2017	31 - Dec 2016
A - OPERATIONS		
Net Results of the period	4,826	3,339
Amortisation and impairment	11,543	10,684
Perdite (Utili) su cessioni immobilizzazioni	(143)	142
Deferred tax liabilities (assets)	1,343	893
Net change in the provision for serverance indemnities	48	484
Net change in provisions	(739)	(194)
Investments depreciation	185	357
Exchange differences	2,811	726
Cash flow (absorption) from operations prior to changes in working capital	*19,874*	*16,431*
(Increase)/Decrease in trade receivables	2,788	(9,329)
(Increase)/Decrease in inventories	(7,877)	(2,861)
(Increase)/Decrease in trade payables	(387)	1,942
Employee severance indemnity disbursement	(408)	(422)
Net change in other current assets/liabilities	2,739	402
Trade exchange differences	(1,385)	443
Flusso (assorbimento) di cassa dell'attività operativa per variazioni del capitale circolante	*(4,530)*	*(9,825)*
TOTAL (A) CASH FLOW FROM OPERATIONS	**15,344**	**6,606**
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(12,110)	(10,260)
Net investment in intangible assets	(992)	(3,465)
Net investment in financials assets	(400)	(207)
Sales of tangible fixed assets	148	575
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(13,354)**	**(13,357)**
C - FINANCING ACTIVITY		
Distribution of dividends	(3,145)	
Other changes in equity	65	(531)
Change in net debt (net of new medium / long-term loans)	(6,532)	(2,465)
New loans	41,000	37,500
Loan repayments	(24,034)	(24,625)
Net change in intercompany loans	(15,356)	2,514
Financial Exchange differences	(1,426)	(1,169)
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**(9,428)**	**11,224**

Opening net cash	**9,948**	**5,475**
Net change in short-term net cash (A+B+C)	**(7,438)**	**4,473**
Closing net cash	**2,510**	**9,948**
Supplementary information:		
Interest paid	678	719
Income taxes paid	641	127

The cash flow statement, shown above, shows movements of cash and cash equivalents in compliance with IAS 7. For a better understanding of the overall financial evolution, the Directors' Report includes a summarised cash flow statement, which highlights the movements of the Net Financial Position, as a whole.

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

Statement of changes in equity from 1 January 2016 to 31 December 2017

(THOUSANDS OF EURO)	*Share capital*	*Share premium reserve*	*Revaluation reserve*	*Legal reserve*	*Other reserves*	*Net profit (loss of the period)*	*Total equity*
Balance as of 1 January 2016	**22,678**	**60,784**	**4,493**	**3,958**	**52,003**	**(1,103)**	**142,813**
Net result for the period						3,339	3,339
Other comprehensive profit (loss)					(531)		(531)
Total gains (losses) booked directly to equity					**(531)**	**3,339**	**2,808**
Allocation of net profit for year 2015					(1,103)	1,103	
Balance as of 31 December 2016	**22,678**	**60,784**	**4,493**	**3,958**	**50,369**	**3,339**	**145,621**
Balance as of 1 January 2017	**22,678**	**60,784**	**4,493**	**3,958**	**50,369**	**3,339**	**145,621**
Net result for the period						4,826	4,826
Other comprehensive profit (loss)					92		92
Total gains (losses) booked directly to equity					**92**	**4,826**	**4,918**
Allocation of net profit for year 2016				167	3,172	(3,339)	
Distribution of dividends					(3,145)		(3,145)
Balance as of 31 December 2017	**22,678**	**60,784**	**4,493**	**4,125**	**50,488**	**4,826**	**147,394**

EXPLANATORY NOTES

Panariagroup Industrie Ceramiche Spa

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 at Via Panaria Bassa 22/A, Finale Emilia (Modena), Italy. It is listed on the STAR segment of the Italian Stock Exchange.

The Company produces and sells ceramic tiles for floors and wall coverings under five distinctive brand names (Panaria, Lea, Cotto d'Este, Fiordo and Blustyle) that are sold in more than 60 countries.

The Company holds controlling interests recorded in the financial statements at cost and, accordingly, has prepared Group consolidated financial statements. These financial statements provide adequate supplementary disclosures on the financial position and results of the Company and the Group.

The financial statements for the year ended 31 December 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 no. 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).

The accounting policies used for preparing these financial statements do not differ from those applied since adopting IFRS, with the exception of the newly introduced standards and the amendments indicated below in these explanatory notes.

In order to clearly disclose figures in the financial statements, pursuant to provisions set out by "*IAS 1 - Presentation of Financial Statements",* paragraph 55 *("An entity shall present additional line items (...), headings and subtotals when such presentation is relevant to an understanding of the entity's financial position*"), the balance sheet underwent some changes with respect to the previous year, namely:

- in the "Non-current assets" section, the line previously named "Other non-current assets" was broken down into items "Other non-current assets" and "Non-current financial assets", while the line named "Financial Assets" has been renamed in "Equity investments";
- in the "Current assets" section, the line previously named "Other current assets" was broken down into items "Other current assets" and "Current financial assets";

Lastly, the disclosure order of items was changed from a declining liquidity format, as elected during the IFRS transition phase, to an increasing liquidity format.

The financial statements include:

- the balance sheet as at 31 December 2017 compared with the balance sheet as at 31 December 2016. In particular, the balance sheet has been drawn up in an increasing liquidity format, with current and non-current assets and liabilities shown separate, 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 income statement for 2017, compared with that for 2016.

  Note that, as decided on first-time adoption of the IFRS, the income statement shows the following interim results, not defined as an IFRS accounting measurement method, because the Company's management is of the opinion that they provide important information for an understanding of the results for the period:

  - *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.

  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, under costs or revenues, of any significant components of income and/or expense deriving from non-recurring events or transactions or arising from transactions or events that are not repeated frequently in the normal course of business.

- the statement of comprehensive income for 2017 with comparative figures for the year 2016, presented in accordance with the requirements of IAS 1 revised.

- the cash flow statement for 2017 and 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 activities and from changes in working capital;

- the statement of changes in equity from 1 January 2016 to 31 December 2017;

- the explanatory notes (with related attachments).

The currency used to draw up the financial statements of Panariagroup Industrie Ceramiche S.p.A. for the period 1 January – 31 December 2017 is the Euro.

The financial statements have been approved by the Board of Directors on 16 March 2018.

1) ACCOUNTING PRINCIPLES

Measurement criteria

General principles

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, and on a going concern basis. In fact, the Group has determined that there are no uncertainties about business continuity.

The accounting policies used to prepare the consolidated financial statements for the year ended 31 December 2017 do not differ from those used to draft 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.

In particular, the following amendments were made:

IAS 7 Disclosure Initiative – Amendments to IAS 7 – Statement of Cash Flows
According to amendments, an entity is required to disclose supplementary information on changes in financing-related liabilities, including both cash flow changes and non-cash changes (e.g. exchange gains and losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses (not applicable due to EU non-endorsement)
The amendments clarify that an entity should consider whether tax law limits the income tax base on which deductions may be made in relation to the reverse of deductible temporary differences. The amendment also gives guidelines on how an entity should determine future taxable income and explains the cases in which the taxable income might include the recovery of some assets for a value that is higher than their carrying value.

Lastly, description is made hereunder of the accounting standards, amendments and IFRS interpretations not yet applicable and that the Company is analysing. Evaluation is also being made on the impact that these standards would have on the Company's financial statements. No early adoption is however expected.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, which replaces IAS 39 – Financial Instruments: Recognition and Measurement and all prior versions of IFRS 9. IFRS 9 combines all three aspects related to the accounting project of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for years starting on or after 1 January 2018; early adoption is permitted. Except for hedge accounting, the standard must be applied retrospectively, but it is not necessary to provide comparative disclosures. As regards hedge accounting, the standard is generally applied prospectively, with some restricted exemptions.

In particular, for the financial assets the new standard uses a unique approach based on the methods of managing financial instruments and on the features of the contractual cash flows of the financial assets in order to determine their measurement criterion, replacing the different rules provided for by IAS 39. For the

financial liabilities, on the other hand, the main amendment regards the accounting treatment of the changes in fair value of a financial liability designated as financial liability measured at fair value through the income statement if these changes are due to the change in the credit rating of the issuer of the same liability. According to the new standard, these changes must be recognised in the "Other comprehensive income" statement, and no longer in the income statement.
The Company is completing the evaluation aimed at determining whether and to what extent this standard would have any impact, especially by adapting the provision matrix currently applied. The Company deems that there will be no significant impact on its Balance Sheet and Equity.

IFRS 15 - Revenue from contracts with customers
IFRS 15 was issued in May 2014 and amended in April 2016 and introduces a new five-stage analysis model which will apply to revenue from contracts with customers. IFRS 15 provides for the recognition of revenue for an amount that reflects the consideration to which the entity believes to be entitled in exchange for the transfer of goods or services to the customer.

The new standard will supersede all current requirements on revenue recognition envisaged by IFRSs. This standard is effective for years starting on or after 1 January 2018, with full or amended retrospective application. Early application is permitted.

The Company expects to apply the new standard from the mandatory effective date, by using the amended application method. The preliminary evaluation of the effects of IFRS 15 started in 2016; in 2017, the Company continued and completed the evaluation with a more detailed analysis.

The Company produces and sells ceramic tiles for floor and wall coverings under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. The Company is mainly focused on the high-end and deluxe market segment and mainly sell porcelain gres product lines, both in Italy and abroad. The products are sold separately and mainly based of specific contracts with well identified customers (mainly B2B).

(a) Sales of goods

With regard to contracts with customers in which the sale of ceramic items is the only obligation envisaged, the adoption of IFRS 15 is not expected to have any impact on revenues and on the Company's income statement. The Company estimates that revenues would be recognised when the control of the asset is transferred to the customer, generally upon delivery of the goods based on the Incoterm terms and conditions used.

In the first time adoption of IFRS 15 phase, the Company is analysing the following:

(i) Variable consideration

Some contracts with customers envisage a right of return, year-end allowances (rebates based on milestones of volumes and/or turnover) and discounts. The Company currently recognises at fair value revenues from the sales of goods and related to the consideration received or to be received, less adjustments for returns, discounts and rebates on volumes. If revenues cannot be measured in a reliable way, the Company will postpone their recognition until the amount is certain. This type of adjustments to revenues generates what IFRS 15 defines as variable consideration, which must be estimated upon execution of the contract, with subsequent updating.

According to IFRS 15, the initial estimate of the variable consideration must be restricted in order to avert any over-recognition of revenues. The Company expects that, in light of the following comments, the application of a restriction would not entail a postponed recognition of a higher volume of revenues with respect to revenues recognised by applying the current IFRS standards.

- Right of return

When a contract with a customer envisages a right of return of the goods within a specific period of time from delivery (less than one year), the Group recognises the right of return by using an approach based on probability-weighted amounts, which in turn is estimated based on a historical analysis, similar to the expected value method envisaged by IFRS 15. The accounting criterion, which is currently in use, envisages the allocation of a Provision of non-current risks and charges in the consolidated balance sheet and a counter-entry in the consolidated income statement under item Revenues from sales and services rendered “on a net basis” (i.e. for a value equal to the average margin of sales).

According to IFRS 15, the consideration received from the customer is variable to the extent that the contract permits the return of goods by the customer. The Group elected to use the expected value method to estimate goods that will be returned as this method allows for a better estimate of the variable consideration to which the Group is entitled. In defining the variable consideration, which can be included in the transaction price, the Group applied the restrictions set out by IFRS 15 as regards the variable consideration estimates.

Pursuant to IFRS 15, the Company will provide for some reclassifications in the balance sheet, which will not affect retained earnings as at 1 January 2018.

- Year-end allowances and discounts

The Company grants its customers retrospective year-end allowances on all products purchased by the customer when the quantity and/or the value of goods purchased during the year achieve the milestones envisaged in the contract. Pursuant to the accounting criterion currently in use, the Company determines the amount of estimated discounts by using an approach based on probability-weighted allowance, in its turn based on a historical analysis on milestones achieved by specific customers. The amounts are then recognised under a special item in Current liabilities. These amounts are usually settled through the issue of credit notes.

Moreover, the Company grants discounts if the customer settles the invoice with a shorter payment term than the “ordinary” one, or the terms agreed upon in the contract. Cash discounts are prospectively accounted for during the year (according to the contract and the historic data on the customer’s payments), upon recognition of revenues from the sale of expected goods.

According to IFRS 15, retrospective year-end allowances and discounts generate a variable consideration. In order to estimate the amount of variable consideration to which it will be entitled, the Group decided that, as regards contracts envisaging one milestone, the most probable amount method allows for the best estimate of the possible consideration. Conversely, as regards contracts envisaging more than one milestones (steps), the expected value method or the most probable amount method will be applied, whichever estimates at best the variable consideration envisaged in that specific type of contract.

The Company applied the variable consideration restrictions set out in IFRS 15 and concluded that no material impact due to these changes would occur at the transition date. Pursuant to IFRS 15, the Company will continue to disclose contract Liabilities related to future discounts and expected allowances under Current liabilities.

(ii) Payables to customers

The Group contractually grants payables to customers in favour of special customers, in the form of:

- co-marketing fees: consideration to advertisement costs that the customer will borne during the year, often determined as percentage on the annual turnover;
- allowances by kind: free delivery of the square metres of tiles, whose value is determined based on a contractually predetermined percentage on the value of products purchased over the period.

The accounting criterion, which is currently used, is similar to the one described in relation to year-end allowances and discounts, to which reference is made.

According to IFRS 15, if the consideration payable to a customer is not paid against a distinct good or service, it shall be recognised as reduction to the total transaction price (and therefore a reduction of item Revenues from sales and services in the consolidated income statement) when the Group recognises the revenue for the sale of the expected goods or, if earlier, when the Group pays or promises to pay the considerations to the customer. The Group applied the variable consideration restrictions set out in IFRS 15 and concluded that no material impact due to these changes would occur as at the transition date.

(b) Presentation and disclosure requirements

Provisions of IFRS 15 as regards presentation and disclosure requirements are more detailed with respect to those envisaged in the current standards. Presentation requirements are a significant change and increase the amount of disclosures required in the Company's financial statements. A great number of disclosures required by IFRS 15 is entirely new and, in light of the preliminary evaluation of the impact of the new standard, the Group determined that these disclosure requirements will have a significant impact, mainly on the assumptions used to determine the transaction price for the contracts envisaging a variable consideration.

Moreover, as required by IFRS 15, the Company will provide for a disaggregation of revenues from contracts with customers in relation to segments showing how the type, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The effect of this requirement, compared to the segment disclosures required by IFRS 8 - Operating Sectors, is not material as at the transition date.

In 2017, the Company continued to test systems, in-house controls, politics and necessary procedures to collect and present the required disclosures.

(c) Other adjustments

The recognition and measurement requirement envisaged by IFRS 15 are applicable also to the recognition and measurement of each profit or loss on the sale of non financial assets (i.e. components of Plants and machinery and Intangible assets), when the sale is not carried out during the ordinary conduct of business. The Group, however, estimates that the impact of these changes would not be material for the Group as at the transition date.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of an investee, which is sold or contributed to an associated company or a joint venture. The amendments clarify that the gain or loss resulting from the sale or the contribution of assets that constitute a business between an investor and its associate or joint venture, as defined in IFRS 3, shall be recognised in full. The gain or loss resulting from the sale or contribution of assets that do not constitute a business, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB deferred indefinitely the application date of these amendments. However, if an entity elects for an early application, it should be made prospectively. Group does not expect impacts.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued the amendments to IFRS 2 Share-based Payment that consider three main issues: effects of a vesting condition on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction settled net of tax withholdings; the accounting when a modification occurs of share-based payment transactions from cash-settled to equity-settled.

Upon adoption, the entities shall apply the amendments without restating the previous reporting periods; nevertheless, a retrospective application is allowed if it is applied for all three amendments and other criteria are fulfilled. Group does not expect impacts.

IFRS 16 – Leasing

IFRS 16 was published in January 2016 and replaced IAS 17 "Leasing", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating leasing – Incentives" and SIC-27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".
IFRS 16 defines the policies for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognise all leases on the financial statement on the basis of a single model similar to that used to account for finance leases in accordance with IAS 17.
Short-term leases (e.g. within 12 months), and those in which the underlying asset has a low value (e.g. personal computers), are excluded from the lessees' recognition requirements. At the inception date of the lease, the lessee shall recognise a liability against lease payments (i.e. lease liabilities) and an asset representing the right of use of the underlying asset for the duration of the contract (i.e. the right of use of the asset). The lessees shall provide for a separate recognition of expenses and interest of lease liabilities and amortisation of the right of use of the assets.
Lessees shall also remeasure lease liabilities upon occurrence of specific events. Lessees shall in general recognise the amount of the remeasuring of lease liabilities as an adjustment to the right of use of the asset.
IFRS 16 is effective for years starting on or after 1 January 2019. An early application is permitted, but not before the entity has adopted the IFRS 15 standard. Lessees can elect to apply the standard by using either a fully retrospective approach or a modified retrospective approach. Transitory provisions envisaged by the standard permit some facilitations.
Given the great number of lease contracts and the significance of changes made by the new standard, in 2018 the Company will continue to determine the effects resulting from its application.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. When effective, the IFRS 17 standard will supersede the IFRS 4 Insurance Contracts standard, issued in 2005. IFRS 17 applies to all types of insurance contracts (e.g.; life, non-life, direct insurance, reinsurance), regardless of the type of issuer, as well as to some guarantees and financial instruments with a discretionary participation feature.
Restricted exceptions are applicable to the scope of the standard. The general aim of IFRS 17 is to provide for an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast with provisions set out by IFRS 4 that are largely based on the maintenance of previous accounting policies, IFRS 17 supplies a comprehensive model for insurance contracts that covers all relevant accounting issues. The core of IFRS 17 is the framework model, integrated by:

- A special adaptation for contracts with direct features (variable fee approach).
- A simplified approach (premium allocation approach), mainly for short-term contracts.

The IFRS 17 standard will be in force for annual reporting periods beginning on or after 1 January 2021, and will require the disclosure of comparative balances. Early application is permitted; in this case, the entity must have also adopted IFRS 9 and IFRS 15 as at the date of IFRS 17 first time application, or earlier.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer an investment property, including real estate properties under construction or development that are disclosed or not disclosed under item Investment property. The amendment specifies that a change in use occurs when the building fulfils, or ceases to fulfil the definition of real estate property and there is evidence of a change in use. A simple change in the management intentions concerning the property is not an evidence of a change in use. Amendments should be applied by entities prospectively with respect to changes in use that occurred at the beginning of the financial year in which the entity applies the amendments for the first time, or at later date. An entity should re-evaluate the classification of buildings owned at that date and, if applicable, it should reclassify them to reflect the conditions existing as at that date. In compliance with IAS 8, a retrospective application is permitted, if an entity can do so without using hindsight. This amendment is effective for years starting on or after 1 January 2018. Early application is permitted, of which disclosures must be provided. No impact is expected on the Company's financial statements.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements - 2014-2016 Cycle (not applicable due to EU non-endorsement)

The amendments clarify that disclosure requirements of IFRS 12 apply to an entity's interests in a subsidiary, joint venture or associated company (or to a portion of equity investment in a joint venture or associated company), which is classified (or included in a discontinuing group classified) as available for sale.

Annual improvements to IFRSs - 2014-2016 Cycle

On 8 December 2016, the IASB issued some minor amendments to the following standards, in relation to which no significant impact is expected by the Company.

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions, envisaged in paragraphs E3-E7 of IFRS 1 were deleted as no longer within the scope of the standard. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify the following:

- On initial recognition and with reference to the specific investment, an entity that is a venture capital organisation, or other qualified entity, might elect to measure its interests in associates and joint ventures at fair value through profit or loss.
- If an entity is not an investment entity, but has an investment in an associate or joint venture, which is an investment entity, when applying the equity method in measuring its equity investment (in the associate or joint venture), this entity might decide to maintain the measurement at fair value applied by the investment entity (either an associate or a joint venture). This choice is made separate for each associate or joint venture, which is an investment entity, at the following dates, whichever is later (in terms of occurrence): (a) initial recognition of the equity investment in the associate or joint venture, which is an investment entity; (b) when the associate or joint venture becomes an investment entity; and (c) when the associate or joint venture, which is an investment entity, becomes parent company for the first time.

The amendments should be applied retrospectively from 1 January 2018. Early application is permitted. If the entity elects for an early application of the above amendments, adequate disclosures should be provided.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments concern the problems arising from the adoption of IFRS 9, the new standard on financial instruments, before adopting IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments envisage two options for entities that are issuers of insurance contracts: a temporary exemption in applying IFRS 9 and the overlay approach. The temporary exemption is applied for the first time to annual reporting periods beginning on or after 1 January 2018. An entity might elect to adopt the overlay approach on first time adoption of IFRS 9 and to apply this approach retrospectively to financial assets designated upon transition to IFRS 9. The entity restates the comparative disclosures based on the overlay approach only, and only if the entity restates the comparative disclosures when applying IFRS 9.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, in defining the spot foreign exchange rates to be used on initial recognition of the related asset, expense or income (or a part thereof) upon deletion of a non-monetary asset or non-monetary liability related to advance considerations, the date of transaction is the date of initial recognition of the non-monetary asset or non-monetary liability related to advance considerations. In the event of payments or multiple advance payments, the entity shall define the date of transaction for each payment of consideration or advance consideration. Entities might apply these amendments on a fully retrospective basis. As an alternative, an entity might apply the interpretation prospectively to all assets, expenses and income that are within the scope of the standard and had an initial recognition at or after the following dates: at inception of the financial year related to the first time adoption of the interpretation; at inception of the prior financial year disclosed, for comparison purposes, in the financial statements in which the entity applied the interpretation for the first time.
This interpretation is effective for years starting on or after 1 January 2018. An early application is permitted, of which disclosures shall be given.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The interpretation defines income tax accounting when there is uncertainty over income tax treatment under IAS 12. It must not be applied to taxes that are not within the scope of IAS 12 standard and does not include any requirements related to interest or fines related to uncertain tax treatments.
The interpretation specifically concerns the following issues:

- If an entity estimates uncertain tax treatments separately
- Assumptions of the entity on the assessment of tax treatments by tax authorities
- How an entity determines taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity estimates changes in facts and circumstances.

An entity shall determine whether each single uncertain tax treatment should be considered separate or together with other (one or more) uncertain tax treatments. The approach resulting to be the best solution for uncertainty should be adopted. This interpretation is effective for years starting on or after 1 January 2019. Some interim facilities are available.

Except as indicated above, no significant changes are expected on the separate and consolidated financial statements by the new standards described above.

The main accounting policies applied are described below.

Intangible assets

Intangible assets consist of non-monetary elements, without any physical substance, that are clearly identifiable and able to generate future economic benefits. Such elements are booked at purchase or production cost, including directly attributable expenses incurred to permit the asset to be used, net of accumulated amortisation and any impairment losses. Amortisation begins when the asset is available for use and is charged systematically over its estimated useful life.

Bought-in software licences are capitalised on the basis of the costs incurred for their purchase and to bring them into use. Amortisation is calculated on a straight-line basis over their estimated useful life.

The costs associated with the development and maintenance of software programs are accounted for as a cost when incurred. The costs directly associated with the production of unique and identifiable software products that are under the company's control and which will generate future economic benefits over a time horizon of more than one year are accounted for as intangible assets.

Software is amortised on a straight-line basis over its useful life, in the absence of specific indications, considered to be 5 years. For the SAP management software a useful life of at least 10 years has been considered.

Internally generated intangible assets - research and development costs

Research costs are booked to the income statement in the period in which they are incurred.

Internally generated intangible assets that derive from the Panaria group's product development efforts are only capitalised if all of the following conditions are satisfied:

- the asset is identifiable (e.g. software or new processes);
- it is probable that the asset will generate future economic benefits;
- the development costs of the asset can be reliably measured.

Such intangible assets are amortised on a straight-line basis over the estimated useful lives of the related products.

When internally generated assets cannot be recorded in the financial statements, the development costs are charged to the income statement in the period in which they are incurred.

Trademarks and patents

Patents and trademarks are initially booked at purchase cost and amortised on a straight-line basis over their useful lives; in the absence of specific indications, for trademarks a useful life of at least 10 years is identified.

Property, plant and equipment

Property, plant and equipment are booked at historical cost, net of accumulated depreciation and any write-downs due to impairment. The cost includes the best estimate, if significant, of the costs involved in dismantling and removing the asset and the costs involved in reclaiming the site where the asset was located, if these come under the provisions of IAS 37.

Any costs incurred after the purchase are only capitalised if they add to the future economic benefits inherent in the asset to which they refer. All other costs are booked to the income statement when incurred. In particular, ordinary and/or cyclical repairs and maintenance costs are booked directly to the income statement in the period in which they are incurred.

Depreciation is charged on a straight-line basis against the cost of the assets, net of their residual values, over their estimated useful life, applying the following rates (main categories):

Category	Rate
Buildings and light buildings	4%-10%
Plant and machinery	10%-15%
Industrial equipment	25%
Electronic office machines	20%-25%
Furniture and showroom furnishings	10%-20%
Vehicles	25%

Land is not depreciated.

Depreciation starts when the assets are ready for use.

If a depreciable asset is made up of distinctly identifiable elements that have significantly different useful lives, depreciation is charged separately on each of the elements making up the asset, based on the so-called component approach.

Assets held on the basis of finance leases are depreciated over their estimated useful life, in the same way as for assets owned, or over the period of the lease contract if this is less.

Gains and losses on the sale or disposal of fixed assets are calculated as the difference between the sale proceeds and the net book value of the asset, and are to be booked to the income statement of the period in which the sale or disposal takes place.

Equity investments in subsidiaries

Equity investments in subsidiaries are measured at historical cost, adjusted for impairment.

Equity investments in joint venture companies

These are entities over which the Group has contractually agreed sharing of control, or where there are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.
Equity investments in joint venture companies are accounted for under the equity method.
As at 31 December 2017, the Group held a joint venture company (JVC). In the financial statements for the year ended 31 December 2017, this equity investment was measured according to the equity method, using the interim financial statements as at 31 December 2017 of the Indian investee company as a reference. As a local practice, the financial statements of this company, in fact, do not coincide with the calendar year.

For these equity investments, if joint control should be lost, the difference between (a) the fair value of any share retained and the consideration received for the sale and (b) the book value of the investment on the date control is lost, will be booked to the income statement.

Impairment losses

At each balance sheet date, the Company reviews the book value of its tangible, intangible and financial assets for any signs that these assets may have suffered impairment. In order to verify whether the assets are impaired, an estimate is made of the recoverable amount of these assets to determine the amount of any impairment loss. When it is not possible to estimate the recoverable amount of an asset individually, the Company makes an estimate of the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

The recoverable value is the higher of the asset's fair value, less costs to sell, and its value in use. To determine the value in use, the estimated future cash flows are discounted to their present value at a rate net of tax that reflects current market assessments of the time value of money and the specific risks of the business in question.

If the recoverable amount of an asset (or of a CGU) is estimated to be lower than its book value, it is written down to the lower recoverable amount. Impairment losses are booked to the income statement immediately.

When, subsequently, the loss in value ceases to exist or is reduced, the carrying value of the asset is increased up to the new estimate of the recoverable amount, but no higher than the value that would have been determined if no impairment loss had been recognised. The write-back of an impairment loss is recognised immediately in profit or loss.

Leases

Leases are classified as finance leases if the terms of the contract substantially transfer all of the risks and rewards of ownership to the lessee. All other contracts are treated as operating leases.

Assets under finance leases are booked as Company assets at their fair value on the date of stipulation of the contract or at the present value of the minimum lease payments, if this is less. The corresponding liability to the lessor is included in the balance sheet as a lease liability. The lease instalment payments are split between principal and interest so as to achieve a constant rate of interest on the residual liability.

The lease instalment costs under operating leases are booked on a straight-line basis over the life of the contract. The benefits received or to be received by way of incentive to take out operating leases are also booked on a straight-line basis over the life of the contract.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes direct materials and, where applicable, direct labour costs, production overheads and other costs incurred to bring the inventories to their current location and condition. Cost is calculated on the basis of the weighted average cost method. Net realisable value represents the estimated selling price less the estimated costs of completion and the costs considered necessary to make the sale.

Receivables from customers

Receivables from customers are shown at face value less an appropriate write-down to reflect estimated losses on receivables. Appropriate write-downs as an estimate of the amounts that are unlikely to be recovered are booked to the income statement when there is objective proof that the receivables have suffered an impairment. Write-downs are measured as the difference between the carrying value of the receivables and the present value of the estimated future cash flows discounted at the effective rate of interest calculated when the receivables are first booked.

Financial assets

Financial assets are booked to and reversed out of the balance sheet on the basis of the date of purchase or sale and are initially valued at fair value, including any charges directly related to the purchase.

At subsequent balance sheet dates, the financial assets that the Company intends and has the ability to hold to maturity ("securities held to maturity") are shown at amortised cost using the effective interest rate method, net of any write-downs for impairment.

Financial assets other than those held to maturity are classified as being held for trading or available for sale, and are measured at fair value at the end of every period. When financial assets are held for trading, the gains and losses deriving from changes in their fair value are charged to the income statement for the period; for financial assets available for sale, gains and losses deriving from changes in their fair value are booked directly to equity until such time that they are sold or have suffered an impairment; at that moment, the overall gains and losses previously booked to equity are transferred to the income statement for the period.

Cash and cash equivalents

This includes cash on hand, bank current and deposit accounts that are repayable on demand and other highly liquid short-term financial investments that can rapidly be converted into cash and which are not subject to a significant risk of changes in value.

Derivatives

The Company's activities are primarily exposed to financial risks arising from changes in exchange rates and interest rates. The Company uses derivatives to hedge the risks deriving from foreign exchange fluctuations that might affect commitments that are certain and irrevocable, as well as foreseeable future transactions. Even though these derivatives are not held for trading purposes, but solely to cover exchange rate risks or a change in interest rates, they do not have the characteristics required by IAS 39 to be defined as hedging derivatives.

Derivatives are recorded at fair value; changes in the fair value of derivatives that do not qualify for hedge accounting are booked to the income statement in the period they arise.

Provisions

Provisions are recognised in the financial statements when the Group has a clear obligation as the result of a past event and it is probable that an outlay of resources will be required to fulfil the obligation. Provisions are made on the basis of management's best estimate of the costs required to fulfil the obligation as of the balance sheet date, and are discounted if the effect is significant.

Post-employment benefits

Payments into defined-contribution pension plans are booked to the income statement in the period in which they are due; payments to Foncer, a supplementary pension scheme, fall into this category, as well as payments of severance indemnities since the start of 2007 under the reform of these indemnities by the

Budget Law.

For defined-benefit plans, the cost of the benefits provided is calculated by performing actuarial valuations at the end of each financial period. Liabilities for post-employment benefits shown in the balance sheet consist of the present value of the liabilities for defined-benefit plans adjusted to take account of the actuarial gains and losses that have not yet been recognised and of any past service costs that have not yet been recognised. Any net assets resulting from this calculation are limited to the value of the actuarial losses not yet recognised and to past service costs that have not yet been recognised, plus the net present value of any reimbursements and reductions in future contributions to the plan.
The standard sets forth the obligation of recognising actuarial gains and losses in the statement of comprehensive income.

Payables due to suppliers

Payables due to suppliers are booked at their face value.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified on initial recognition among financial liabilities designated at fair value through profit or loss, among mortgages and loans or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value added to which, for mortgages, loans and payables, are the directly attributable transaction costs.

The Group's financial liabilities include payables due to suppliers and other payables, mortgages and loans, including current account overdrafts, guarantees given and derivatives.

Subsequent measurement

The financial liabilities are mainly composed of loans. After initial recognition, if the effects are significant, loans are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liability is settled, in addition to through the amortisation process.
The amortised cost is calculated by recognising the discount or premium on the acquisition and the fees or costs forming an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the statement of profit or loss.

Equity instruments

The equity instruments issued by the Company are booked on the basis of the amount received, net of direct issue costs. They are defined as contracts that give a right to benefit from the residual interests in the Company's assets after all liabilities have been deducted.

Bank loans

Interest-bearing bank loans and overdrafts are booked on the basis of the amounts received, net of any related costs, and subsequently valued at amortised cost, using the effective interest rate method.

Treasury shares

Treasury shares and gains and losses realised on their disposal are booked directly to the equity reserves.

Revenue recognition

Revenues are recognised to the extent it is probable that the economic benefits are achieved by the Group and the related amount can be reliably determined, regardless of the date of collection. Revenues are measured at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding taxes and duties.

Foreign currency transactions

Transactions in currencies other than the euro are initially booked at the exchange rates valid on the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in such currencies are restated at period-end exchange rates. Non-monetary assets expressed at fair value that are denominated in a foreign currency are translated at the exchange rates ruling on the date on which the fair values were determined. Exchange differences arising on the settlement of monetary items and their re-measurement at year-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, like for the exchange element.

In accordance with IAS 21, exchange differences originating from intragroup foreign currency loans are recognised in profit or loss.

Government grants

Government grants for capital investments are booked to the income statement over the period needed to match them against the related costs, being treated in the meantime as deferred income.
In particular, they are booked when there is reasonable certainty that the company will comply with the requirements for the allocation of funds, and that the grants will be received.

Income taxes

Income taxes for the year are the sum of current and deferred taxes.

Current taxes are based on the taxable result for the year. Taxable income differs from the result shown in the income statement as it excludes positive and negative elements that will be taxed or deducted in other financial years, while it also excludes those items that will never be taxed or deducted for tax purposes. The current tax liability is calculated using the official or effective tax rates ruling at the balance sheet date.

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of the assets and liabilities shown in the financial statements and the corresponding value for tax purposes used in calculating taxable income, accounted for according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, whereas deferred tax assets are only recognised to the extent that it is considered probable that there will be sufficient taxable income in the future to absorb them. These assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (not in business combinations) of other assets or liabilities in transactions that do not have any influence either on the accounting result or on the taxable result.

Deferred tax liabilities are recognised on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in those cases where the Company is able to control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to allow all or part of such assets to be recovered.

Deferred taxes are calculated on the basis of the tax rate that is expected to be in force at the time that the asset is realised or the liability extinguished.

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Deferred taxes are booked directly to the income statement, except for those relating to items booked directly to equity, in which case the related deferred taxes are also booked to equity.

Significant accounting policies based on the use of estimates

Preparation of the 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 financial statements.

Financial assets – Estimate of the degree of recoverability

The price paid by the Company for corporate acquisitions reflects a goodwill element. Financial assets are 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 the future scenarios for the Company and the market turn out to be different from those assumed when developing the forecasts, the value of financial assets may have to be written down.

Inventory valuation and provision for slow-moving and obsolete goods

Inventories are valued at the lower of cost and net realisable value based on future market trends and making assumptions regarding the future realizable value of inventories.
Analyses made by Management are aimed to identify the goods that are sold at a price lower than the cost (i.e. second and third choice or obsolete material) and to identify the presence of excess or obsolete stocks.
The estimate of the recoverable amount of inventories as of 31 December 2017 is the Managements' best estimate, according to the information available and the predictable circumstances as of closing date, with reference to the Group policies and the expected trend in future sales.
If effective market conditions turn out to be less favourable than those foreseen by the Group policies, the value of inventories might be written down.

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 receivables from customers 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 relation to legal proceedings, court cases and other disputes, in order to establish an appropriate level for the provisions for risks and charges relating to these 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 from the potential outcomes. 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 for risks and charges 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 Company’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 Company’s balance sheet, financial position, results and cash flow.

Financial risks and derivatives

The Company 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 Company is exposed fall into the following categories:

a) Exchange rate risk

The Company 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.

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

b) Credit risk

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

See the “Receivables from customers” section of these notes for the composition of receivables from customers broken down by due date.

c) Interest rate risk

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

The Company’s exposure is mainly to floating-rate debt.

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

d) Liquidity risk

In its main activities the Company 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 Company's objective is to ensure that it can fulfil all of its financial obligations at any moment in time, optimising its recourse to external financing. The Company maintains a certain number of lines of credit (see section 3.a. “Due to banks and other sources of finance”) 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 5.d. “Due to banks” for information regarding the maturities of financial liability contracts.
There are no loan contracts subjected to covenants or other similar guarantees.

2) OTHER INFORMATION

Presentation of the explanatory notes

For the purpose of a better understanding, all amounts reported below are stated in thousands of Euro, except where otherwise indicated.

3) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. NON-CURRENT ASSETS

1.a. Intangible assets

"Intangible assets" as at 31 December 2017 amount to Euro 5,857 thousand, up by Euro 702 thousand compared to Euro 5,155 thousand reported as at 31 December 2016.

Changes during the year can be summarised as follows:

	2017	2016
Beginning Balance	**5,155**	**1,995**
Additions	992	3,465
Amortisation charge	(290)	(305)
Ending Balance	**5,857**	**5,155**

The increases of the year mostly refer to software acquisitions and development tied to the start-up of the IT system integration project at Group level, on a single platform (SAP), not yet operational and therefore pending amongst the constructions in progress.

The changes during the year are reported in attachment 2 to these notes.

1.b. Property, plant and equipment

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

	31-Dec-17	31-Dec-16
Land, buildings and light buildings	112	-
Plant and machinery	35,277	35,429
Equipment and other assets	8,263	7,612
Construction in progress	320	79
	43,972	**43,120**

Changes during the year can be summarised as follows:

	2017	2016
Beginning Balance	**43,120**	**43,956**
Additions	12,110	10,260
Retirements	(5)	(717)
Depreciation charge	(11,253)	(10,379)
Ending balance	**43,972**	**43,120**

The changes for the year are reported in an attachment.

Investments during the year were of an industrial nature with breakdown as follows:

- Euro 1.0 million for investments in the "Mixing" departments
- Euro 1.8 million for investments in the "Press lines" departments
- Euro 1.2 million for investments in the "Glazing" departments
- Euro 0.6 million for investments in the "Furnaces" departments
- Euro 0.2 million for investments in the "Selection" departments
- Euro 1.7 million for investments in the "Cutting and rectification" departments
- Euro 1.8 million for upgrading of "Buildings" and "Light buildings"
- Euro 2.0 million for investments in "Equipment and other assets"
- Euro 0.3 million for investments in the "Lamina backing" departments
- Euro 1.3 million for investments in generic plants
- Euro 0.2 million for other work in progress and advances

The most significant investments have already been previously described in the Directors' Report in section "Significant events in the period" and in section "Non-current Assets".

1.c. Equity investments

As at 31 December 2017, the breakdown of Equity investments was as follows:

	31-Dec-17	**31-Dec-16**
Equity investments in subsidiaries	89,822	89,822
Investment in Indian JV	284	70
Other equity investments	5	5
	90,111	**89,897**

The equity investment in the Indian JV reported an increase of Euro 400 thousand for capital considerations and a decrease of Euro 186 thousand for the depreciation made when applying the equity method.

The item "Equity investments in subsidiaries" is made up as follows:

	31-Dec-17	**31-Dec-16**
Gres Panaria Portugal S.A.	42,598	42,598
Panariagroup USA	46,729	46,729
Montanari Ceramiche S.r.l.	495	495
	89,822	**89,822**

Set out below is a listing indicating for each controlled entity the information required by article 2427, paragraph 5 of the Italian Civil Code:

	Share capital K EUR / K USD	Value at Equity Method (1) K EUR	Profit / Loss 2017 K EUR	% held	Amount in the financial statements K EUR
Gres Panaria Portugal S.A.	Euro 16,500	58,137	5,915	100%	42,598
Panariagroup USA (2)	65,500 USD	56,139	643	100%	46,729
Montanari Ceramiche S.r.l.	Euro 48	384	(16)	100%	495

(1) These amounts take account of the adjustments needed to comply with the accounting policies used for the preparation of the consolidated financial statements.

(2) The Panariagroup USA figures relate to the sub-consolidation of the American sub-holding company and, accordingly, they include Florida Tile and Lea North America.

Panariagroup also participates in a Joint Venture Company (JVC) called "Asian Panaria" with head office in Ahmedabad, in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by AGL Ltd, a leading manufacturer in the Indian market. By means of this joint venture, Panariagroup has direct entry into a market considered to be of great potential, even for our sector.
As stated in the section on Accounting Principles, the book value is measured at equity.

Impairment Testing

As stated earlier in the section on Accounting Principles, at least once a year, even if there is no evidence of impairment, but always whenever any critical impairment indicators arise, the Company performs impairment tests as required by IAS 36 in order to verify the recoverability of these equity investments.

Impairment testing on the separate financial statements of Panariagroup S.p.A. identified as CGUs to be subjected to testing for recoverability of the individual equity investments recorded (legal entities). The impairment test was performed assuming the recoverable amount to be the value in use, in consideration of the fact that it is not possible to reliably establish a fair value net of selling costs.

The value in use was determined as the present value of future cash flows expected to be generated by each equity investment, over the explicit forecast period and subsequent thereto (by determining a terminal value attributable to each), after deduction of the net debt of the individual companies as at 31 December 2017.

The recoverable amount of each equity investment was determined by applying the UDCF ("Unlevered Discounted Cash Flow") model to the cash flows included in the 2018-2022 Business Plan approved by the Board of Directors of the Company on 16 March 2018. The impairment method was approved by the Board of Directors on 15 November 2017. A terminal value was calculated at the end of the explicit forecast period, by applying a return in perpetuity. For the determination of the cash flow on which the terminal value was based, use was made of the Net Operating Profit Less Adjusted Tax (NOPLAT) of the last year of the business plan, estimated by management to be an indicator of a "normalised" flow. The growth rate used for the calculation of the perpetuity was prudently set at zero, in line with the rate used in testing the consolidated financial statements and in line with testing performed in prior years.

The discount rate used to discount expected cash flows was 7.1% (6.26% in 2016). The Company determined the discount rate by weighting the risks associated with the principal markets in which the Company operates on the basis of the turnover achieved by each of these.

Moreover, based on the information contained in the joint document of the Bank of Italy, CONSOB and ISVAP no. 2 of 6 February 2009, the Company set out to develop a sensitivity analysis on the test results compared with the change in the basic assumptions, identifying WACC and EBITDA as significant parameters for this analysis, as they condition the value in use of the cash generating units.

The use of positive values for the "g rate" would, in fact, have determined better results than the baseline scenario considered for the testing.

Note that the impairment tests are based on business plans determined by management on the basis of past experience and expectations of developments in the market in which the Company operates. In particular, the revenue forecasts were made by taking as reference the trends defined by the most recent forecasts published by "Confindustria Ceramica" and "Cresme", without assuming any additional efficiency beyond the current production and organisational structure of the Group. In addition, as mentioned previously, the tests were carried out considering a zero rate of further growth at the end of the explicit forecast period.

Set out below is the outcome of the tests:

Gres Panaria Portugal

Against a carrying value of the investment in Gres Panaria Portugal of Euro 42.6 million, a recoverable amount has emerged from the above tests of Euro 130.3 million.

Panariagroup USA

Based on the above parameters, the recoverable amount of Panariagroup USA as at 31 December 2017 is approximately Euro 93.0 million, compared with the carrying value of the investment of Euro 46.7 million.

Montanari Ceramiche S.r.l.

Against a total carrying value of the equity investment in Montanari Ceramiche S.r.l. of Euro 0.5 million, a recoverable amount has emerged from the above tests of Euro 0.7 million.

Impairment - Sensitivity Analysis

The subsidiaries' recoverable amount, as affected by the main assumptions (WACC and EBITDA), are shown below.

Amounts in millions of Euro	***WACC used***	***WACC +1.0%***
Gres Panaria (*)	*130.3*	*113.4*
Panariagroup USA (**)	*93.0*	*74.3*
Montanari (*)	*0.7*	*0.5*

(*) Amounts in Euro/million
(**) Amounts in USD/million

A sensitivity analysis was performed also with reference to the change in EBITDA.

Amounts in millions of Euro	***EBITDA used***	***EBITDA - 10%***
Gres Panaria	*130.3*	*111.8*
Panariagroup USA (*)	*93.0*	*71.6*
Montanari	*0.7*	*0.5*

(*) Amounts in millions of USD

Upon a change in the main assumptions, according to the above tables, no impairment of equity investments would emerge as regards equity investments of Panariagroup USA, Gres Panaria and Montanari.

1.d. Deferred tax assets

The balance is as follows:

	31-Dec-17	**31-Dec-16**
Deferred tax assets:		
- taxed provisions	3,102	2,934
- tax losses	3,276	5,616
- other deferred tax assets	174	-
Deferred tax assets	**6,552**	**8,550**

Deferred tax assets for “tax losses” refer to the economic results from 2013 to 2015, which recorded negative taxable income. The achievement of a positive economic result in 2016 and 2017 allowed a partial recovery of the deferred tax assets.

With respect to the residual tax loss, the business plans prepared and approved by Group management, show future results that will allow fully recovery of the deferred tax assets recorded. The recoverability of deferred tax assets is subject to the ability of the Company to produce medium term, positive results that will allow their recovery, in line with forecasts included in the business plans approved by directors on 16 March 2018.

The Company has been included in the tax group headed up by its ultimate parent Finpanaria S.p.A., which also includes the related company Immobiliare Gemma S.p.A. and the subsidiaries Montanari Ceramiche S.r.l. and Panariagroup Immobiliare S.r.l. (company sold in December 2016).
The IRES income tax receivable or payable is thus a receivable from or payable to the parent company which, in its role as consolidating entity, handles all dealings with the tax authorities.

1.e. Other non-current assets

	31-Dec-17	31-Dec-16
Other non-current assets	148	146
	148	**146**

The item "Other non-current assets" mainly relates to guarantee deposits for utilities.

1.f. Non-current Financial Assets

	31-Dec-17	31-Dec-16
Intercompany loans receivable	20,442	5,461
Loans due from third parties	143	188
	20,585	**5,649**

The item "Intercompany loans receivable" consists of loans provided to Group subsidiaries and it is made up as follows:

- Euro 13,579 thousand to Florida Tile Inc;
- Euro 1,723 thousand to Panariagroup U.S.A.;
- Euro 4,315 thousand to Lea North America;
- Euro 375 thousand to Gres Panaria Portugal;
- Euro 450 thousand to Montanari Ceramiche S.r.l.

All the loans granted to Group foreign companies are interest bearing at an rate determined on an arm's length basis.

The increase reported over the year is due to a conversion of overdue trade receivables from US subsidiaries into financial receivables.

The amount of these loans was added to the value of subsidiaries holding, to assess their recoverability as part of the Impairment test, commented in section "1.c. Equity investments".

The item "Loans due from third parties" includes a residual loan for Euro 143 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 "Industria 2015".

2. CURRENT ASSETS

2.a. Inventories

As at 31 December 2017, this caption comprises:

	31-Dec-17	31-Dec-16
Raw, ancillary and consumable materials	7,360	6,558
Work in progress	1,539	1,649
Finished products	75,251	67,977
Provision for obsolescence	(6,090)	(6,276)
Total finished products and raw materials	***78,060***	***69,908***
Buildings held for sale	2,585	2,674
Provision for depreciation: buildings held for sale	(684)	(651)
Total buildings held for sale	***1,901***	***2,023***
	79,961	**71,931**

The overall value of inventories rose (8 million, approximately 11%) compared to 31 December 2016. This increase, albeit offset by a slowdown in production recorded in the last period of the year, is attributable to the decrease in sales volumes in the second half-year.

Inventories of finished products and raw materials are shown net of a provision for obsolescence of Euro 6,090 thousand as at 31 December 2017, based on an analysis to estimate the timing of sale and recoverable value of stocks according to historical experience and the market prospects of the various types of goods.

Analyses made by Management are aimed to identify the goods that are sold at a price lower than the cost (i.e. second and third choice or obsolete material) and to identify the presence of excess or obsolete stocks. The estimate of the recoverable amount of inventories as of 31 December 2017 is the Managements' best estimate, according to the information available and the predictable circumstances as of closing date, with reference to the Group policies and the expected trend in future sales.

Inventories include Euro 2,585 thousand of buildings held for sale (mainly apartments received in exchange), net of an impairment charge of Euro 684 thousand, based on the estimates of the market value of the assets at the end of the year drawn up by an independent professional.

2.b. Receivables from customers

The amounts due from customers are made up as follows:

	31-Dec-17	31-Dec-16
Receivables due from third parties	51,131	49,730
Receivables due from subsidiaries	18,157	22,346
Receivables due from related parties	0	0
Receivables due from parent companies	0	0
Provision for bad and doubtful accounts	(681)	(1,105)
	68,607	**70,971**

Receivables due from third parties went up +2.8%, less than the growth in revenue recorded. This result is mainly due to the sales mix, more favourable under this profile, concentrated largely on foreign markets where the extended payment terms granted are much shorter than those practiced on the Italian market.

Receivables due from subsidiaries primarily relate to transactions of a commercial nature (sales of tiles) with Gres Panaria Portugal, Florida Tile, Panariagroup USA and Lea North America.
It should be noted that these transactions account for only 8.1% of the Company's total turnover.
The decrease for the year is primarily attributable to the conversion of trade receivables into loans, as already described in section “1.e. Other non-current assets”.

The item “Receivables due from third parties” includes around Euro 1.9 million in receivables past due by more than 120 days, equal to 2.8% of total receivables (an improvement compared to last year, when receivables past due by more than 120 days amounted to Euro 2.6 million, equal to 3.7% of total receivables); the provision for bad and doubtful accounts, amounting to Euro 0.7 million, reflects an economic estimate of the recoverable value of total receivables, based on the information available at the time of preparing the financial statements.

During the year, the Company factored its non-recourse receivables for a total amount of Euro 358 thousand.

2.c. Due from tax authorities

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

	31-Dec-17	31-Dec-16
VAT receivable	1,157	2,614
Income tax receivable	84	131
IRES receivables on 07/11 IRAP deductibility	1,729	1,729
Other tax receivables	283	277
	3,253	**4,751**

The Company's VAT position is normally in credit, mainly because of the high proportion of exports.

The item “Income tax receivable” as at 31 December 2017 mainly refers to receivables from withholding taxes applied.

The item “IRES receivables on 07/11 IRAP deductibility” refers to the IRES on which a refund was requested due to IRAP deductibility in the years 2007-2011 (art. 2, Law Decree 201/2011).

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

2.d. Other current assets

This caption is made up as follows:

	31-Dec-17	31-Dec-16
Advances to social security institutions	127	102
Advances to suppliers	71	81
Rebates from suppliers and credit notes to be received	342	560
Receivables due from employees and third parties	198	216
Earthquake grants receivable	320	320
Other grants receivable	727	169
Insurance payouts receivable	71	126
Receivables due from energy income	991	1,900
Other	246	249
Total other current receivables	**3,093**	**3,723**
Total current accrued income and prepaid expenses	**711**	**636**
	3,804	**4,359**

The line “Earthquake grants receivable” refers to the amount not yet collected in relation to the claims presented to (and accepted by) the Emilia Romagna Region for damages suffered to plants and buildings, as well as to relocation expenses following the earthquake in May 2012 and not covered by insurance policies.

Receivables related to “Other grants” refer to income due from the Region, amounting to Euro 219 thousand and concerning subsidies granted for R&D activities, as well as, in the amount of Euro 508 thousand, to the last tranche to be collected for the “Industria 2015” project related to the development of photovoltaic tiles.

“Receivables due from energy income” refer to certain types of revenues granted through various subsidies on energy costs, namely the energy-intensive business grants and from the sale of photovoltaic energy.

“Other” includes Euro 232 thousand relating to the recoverable VAT part of write-down of receivables.

The item “Accrued income and prepaid expenses” mainly relates to miscellaneous costs (interest, trade fairs, promotions, commercial costs, maintenance and rentals) that refer to the next year.

2.e. Current financial assets

This caption is made up as follows:

	31-Dec-17	31-Dec-16
Intercompany loans receivable	1,500	1,125
	1,500	**1,125**

"Intercompany loans receivables" refer to the portion repayable by 31 December 2018 of the total loan of Euro 3,000 thousand, disbursed on 30 March 2016 to the subsidiary Gres Panaria Portugal.

2.f. Cash and cash equivalents

These are made up as follows:

	31-Dec-17	31-Dec-16
Bank and post office deposits	2,504	9,941
Cheques	-	-
Cash and equivalents on hand	6	7
	2,510	**9,948**

The changes in financial position during 2017, compared with 2016, are shown in the Cash Flow Statement contained in the section relating to the financial statements.

4) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. EQUITY

Equity consists of:

	31-Dec-17	31-Dec-16
Share capital	22,678	22,678
Share premium reserve	60,784	60,784
Revaluation reserves	4,493	4,493
Legal reserve	4,125	3,958
Other reserves	50,488	50,369
Profit/Loss for the year	4,826	3,339
	147,394	**145,621**

The changes in equity have already been reported in the section forming part of the financial statements.

The equity shown in the financial statements as at 31 December 2016 and 31 December 2017 includes the impacts of the transition from Italian GAAP to International Financial Reporting Standards, which have been booked to “Other reserves”.

The main items making up equity are discussed below.

Share capital

The share capital, subscribed and paid in consists of 45,355,291 shares of par value of Euro 0.50 each.

Share premium reserve

The share premium reserve represents the surplus 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 Panariagroup Industrie Ceramiche S.p.A.;
- Euro 53,114 thousand for the increase in capital carried out in 2004 through the public offering on the stock market;
- Euro 2,601 thousand for the unutilised reserve for additional shares related to the portion of equity reserved for servicing the bonus share at the time the Company was listed.

Revaluation reserves

The revaluation reserves amounting to Euro 4,493 thousand include Euro 4,103 thousand for the revaluation of assets as 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 deferral of taxation, since no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

Legal reserve

The legal reserve increased thanks to the allocation of 5% from the 2016 net profit.

Other reserves

The “Other equity reserves” are made up as follows:

	31-Dec-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/losses and other reserves	563	471
	50,488	**50,369**

The balance of the Extraordinary reserve increased by the net amount related to the allocation of the result of the previous year, after the allocation of 5% to the Legal reserve and the distribution of dividends amounting to Euro 3,145 thousand.

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

The “Retained earnings/losses and other reserves” item includes a merger surplus of Euro 3,108 thousand that reflects the difference between the carrying amount of equity investments of the merged companies and the related equity at the date of the 2004 merger (of Euro 6,062 thousand), less the replenishment of restricted reserves pertaining to the merged companies.

Treasury shares

As previously stated, the treasury shares in portfolio have been accounted for as a reduction in equity, in accordance with international accounting standards.
As at 31 December 2017, the treasury shares held in portfolio were 432,234, at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes compared to 2016.

The treasury shares currently held were purchased in accordance with a resolution passed by the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 26 April 2005. This resolution was then renewed at the Shareholders' Meetings that approved subsequent years' financial statements.

PANARIAgroup

Set out below is an analysis of distributable reserves in accordance with article 2427 of the Italian Civil Code:

(VALUES EXPRESSED IN EURO)

Reserve description	Reserve amount as of 31 December 2017	Possible utilisation	Amount available	summary of uses in the three previous years: to cover losses	summary of uses in the three previous years: for other reasons
SHARE CAPITAL	22,677,645.50				
SHARE PREMIUM RESERVE	60,783,618.45	A B*	60,783,618.45		
REVALUATION RESERVE 576/75	27,888.67	A B**	27,888.67		
REVALUATION RESERVE 72/83	296,714.32	A B**	296,714.32		
REVALUATION RESERVE EX LG 413/91	64,630.67	A B**	64,630.67		
REVALUATION RESERVE LG 342/2000	478,927.54	A B**	478,927.54		
REVALUATION RESERVE 342/2000	3,624,772.26	A B*****	3,624,772.26		
LEGAL RESERVE 5%	4,125,824.79	B***	0.00		
TREASURY SHARES RESERVE	1,614,284.94	-	0.00		
RESERVE SPEC. DPR 22/12/86	3,873.43	A B C	3,873.43		
RESERVE SPEC. LG 399/87	5,050.95	A B C	5,050.95		
GOVERNMENT GRANT RESERVE (50%)	6,931.63	A B C	6,931.63		
RESERVE UNDER L.130/83	3,767.02	A B C	3,767.02		
MERGER SURPLUS RESERVE	3,107,852.68	A B C	3,107,852.68		
EXTRAORDINARY RESERVE	50,462,260.89	A B C	50,434,789.19		
INTEREST-FREE LOAN ON CAPITAL ACCOUNT	1,076,812.63	A B**	1,076,812.63		
RESERVE ART.55 597/73	51,645.69	A B C	51,645.69		
RESERVE L.696 55-597	42,788.45	A B C	42,788.45		
IAS RESERVE	(658,370.76)	-	0.00		
LOSSES CARRIED FORWARD	(3,623,462.33)	-	0.00		
RETAINED EARNINGS	9,073.80	A B C	9,073.80		
NET PROFIT (LOSS)	4,825,502.71	-	0.00		
Reserve not available******			62,728,592.28		
Residual amount available for distribution			57,290,545.10		

* pursuant to Article 2431 of Civil Code may be distributed only if the legal reserve has reached the limit of 1/5 of the share capital. However, it is available to cover losses, increase of share capital and increase the legal reserve (Available but not currently available for distribution).

** can be distributed only by adopting the procedure under Article 2445 cc paragraphs 3 and 4.

*** only when the reserve has reached one fifth of the share capital the excess becomes actually available (art.2430 cc)

**** includes the fee to cover the costs and expansion, research and development and advertising costs not yet amortized.

*****converted into reserves available with Extraordinary General Meeting of 07.09.2004, in accordance with the provisions of art.2445 seconds and third paragraphs.

4. NON-CURRENT LIABILITIES

4.a. Liabilities for employee benefits

This item includes the actuarial value of post-employment benefits, as shown hereunder:

	31-Dec-17	31-Dec-16
Liabilities for employee benefits	**5,431**	**5,818**

Liabilities related to post-employment benefits are related to the employee severance indemnities, as envisaged by the Italian regulations and were determined pursuant to provisions set forth by IAS 19. The main technical bases used for calculations are shown hereunder:

Demographic assumptions

Average retirement age: 100% on reaching the so-called "AGO" (Assicurazione Generale Obbligatoria) requirements.

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

Inability: INPS tables divided by age and gender

Probability of termination of employment for reasons other than death (calculated on the basis of 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:

31-Dec-17: IBoxx Eurozone Corporate AA discount rate = 0.88%
31-Dec-16: IBoxx Eurozone Corporate AA discount rate = 0.86%

The inflation rates taken into consideration are as follows:

31-Dec-17: annual inflation rate = 1.50%
31-Dec-16: annual inflation rate = 1.50%

The changes in this provision during the year were as follows:

Balance as at 31-Dec-16	**5,818**
Charge to the income statement	48
Charge to "Other Comprehensive Income"	(27)
Portion paid out during the year	(408)
Employee severance indemnities as at 31-Dec-17	**5,431**

4.b. Deferred tax liabilities

Deferred tax liabilities as at 31 December 2017 were composed as follows:

	31-Dec-17	31-Dec-16
Deferred tax liabilities:		
- accelerated amortisation/depreciation	51	51
- valuation of severance indemnities according to IFRS	-	(147)
- valuation of agents' termination indemnities according to IFRS	213	186
- valuation of inventories	351	907
- exchange differences on valuation	-	280
- other	10	3
Deferred tax liabilities	**625**	**1,280**

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31-Dec-17	31-Dec-16
Provision for agents' termination indemnities	3,276	3,253
Other provisions	465	650
	3,741	**3,903**

The Provision for agents' termination indemnities refers to the amount allocated as termination indemnity payable on existing agent contracts and, in agreement with international accounting standards, the liability was discounted at a rate of 2.09%.
The rate has been applied to a projection of expected future cash flows for agents' termination indemnities based on past payments of this kind over the last five years. For prudence sake, 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 agency network is made up of legal entities.

The main items that make up “Other provisions” are the “Provision for the risks of ongoing disputes”, the “Provision for returns” and provisions for other potential liabilities estimated.

With regard to tax risks, note that the dispute on use of the “Tax receivable not due” ascertained with issue of a tax recovery demand by the Tax Authorities in December 2015, is still pending. At present, the risk has been categorised as “possible” by Company consultants, so no provision was recognised in the financial statements, in compliance with the accounting principles.

The Company's tax years from 2013 onwards are still open for assessment by the tax authorities.
Management, with support from the Company's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the financial statements.

4.d. Other non-current liabilities

As at 31 December 2017, this caption comprises:

	31-Dec-17	31-Dec-16
Due to suppliers beyond 12 months	2,097	1,183
Deferred income on grants for earthquake	782	1,153
	2,879	**2,336**

The amounts due to suppliers beyond 12 months refer to the discounted value of medium/long-term payables and mainly relate to the supply of plants and machinery on extended payment terms agreed for beyond 12 months.

“Deferred income on grants for earthquake” includes the amount already collected in previous years from the Regional Government and from insurance companies for damages suffered as a result of the 2012 earthquake. These grants mostly refer to works included under fixed assets, recognised in the income statement according to the useful life of the investments to which they refer.

4.e. Due to banks

Medium/long-term financial payables are made up as follows:

	31-Dec-17	31-Dec-16
Medium/Long-term loans	75,460	57,452
	75,460	**57,452**

The item “Medium/Long-term loans” relates to the portion beyond 12 months of medium/long term loans at floating rates tied to Euribor.

In 2017, new loans were taken out for a total amount of Euro 41 million.
The establishment of these loans is connected with the huge investments made at Group level as well as with the choice of a centralized collection of receivables at the Parent Company that has access to large facilities at favourable terms.

There are the following guarantees in respect of these loans in the bank's favour.

- Mortgage Security for Euro 37,500 thousand issued by the affiliated company Immobiliare Gemma S.p.A.;

As pointed out in the related parties section, the Company pays a consideration for these guarantees received.

As required by IFRS 7, the following table reports the due dates envisaged by the repayment plans for the above financial payables:

	31-Dec-17
2018	**19,031**
2019	22,482
2020	20,802
2021	13,203
2022	8,028
2023	4,278
2024	2,778
2025	2,778
2026	1,111
Medium/Long-term	**75,460**
Financial payables	**94,491**

The Company does not have any negative pledges or covenants on debt positions outstanding at the end of the period.

5. CURRENT LIABILITIES

5.a. Payables due to suppliers

The breakdown of payables due to suppliers is as follows:

	31-Dec-17	31-Dec-16
Due to third parties	46,888	46,472
Due to subsidiaries	1,922	1,727
Due to related parties	213	211
	48,023	**48,410**

Payables due to suppliers (including payables due to subsidiaries, related parties and parent companies) relate to payables due to suppliers for the purchase of goods and services for normal business activities.

5.b. Due to tax authorities

This caption comprises:

	31-Dec-17	31-Dec-16
Withholding tax	2,283	2,353
Income tax	41	26
	2,324	**2,379**

5.c. Other current liabilities

As at 31 December 2017, this caption comprises:

	31-Dec-17	31-Dec-16
Due to social security institutions	3,789	3,748
Due to employees	5,040	5,206
Due to customers	3,820	3,729
Due to agents	6,294	6,156
Financial derivatives – negative fair value	189	361
Due for EUA shares to purchase	642	418
Other	144	127
Total current payables	**19,918**	**19,745**
Deferred income from earthquake insurance payouts	371	371
Other accrued expenses and deferred income	10	29
Total current accrued expenses and deferred income	**400**	**400**
	20,299	**20,145**

The item “Due for EUA shares to purchase” refers to the value of the greenhouse gas emission shares to purchase in 2018 to meet the CO_2 emissions of the Company recorded in 2017.

“Deferred income from earthquake insurance payouts” consists of a portion of insurance payouts and of the government grant relating to extraordinary maintenance as a consequence of the earthquake and which have been capitalised. This portion of the payout is thus being taken to income over the useful lives of the assets to which they relate.

5.d. - Due to banks

Short-term financial payables are made up as follows:

	31-Dec-17	31-Dec-16
Current account overdrafts	4	16
Export advances	1,649	8,169
Short-term portion of medium/long-term loans	19,031	20,073
	20,684	**28,258**

The changes in financial position during 2017, compared with 2016, are shown in the Cash Flow Statement contained in the section relating to the financial statements.

The Company's total borrowing facilities granted by banks as at 31 December 2017 amounted to Euro 108.5 million, of which Euro 1.7 million had been drawn down at that date.

The item “Medium/Long-term loans” refers to the current portion of unsecured loans and commented on in more detail in the section “Due to banks and other sources of finance” under non-current liabilities.

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as at 31 December 2017:

- “Interest rate swap” with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on a portion of the total existing and outstanding loan obtained during 2016 with expiry 31/12/2019.
- “Interest rate swap” with a notional underlying principal of Euro 20,000 thousand to hedge interest rates on portion of the total existing and outstanding loan obtained during 2016 with expiry 31/12/2020.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 189 thousand, relating to the mark to market as at year end.

Adjusting these instruments to fair value as at 31 December 2017 involved booking a profit of Euro 47 thousand to the income statement for the period.

In 2017, the “IRS” transaction, entered in 2012, expired.

Effectiveness testing was carried out as at 31 December 2017 which confirmed the hedging requirements envisaged in IAS 39. The gains on the hedging instrument were therefore recognised in Equity, in accordance with cash flow hedge accounting, for Euro 125.

The impact of IFRS 13 relating to the fair value adjustment to consider the counterparty risk is not significant for the Company's transactions involving financial derivatives.

GUARANTEES AND COMMITMENTS

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

The Company gave the following guarantees only to subsidiaries and associates:

- in favour of Florida Tile Inc., for USD 7.5 million on bank guarantees and loans granted by a bank to the US company; USD 1.2 million in favour of a Kentucky government authority for the exercise of production activities at the plant in Lawrenceburg, KY; and USD 0.4 million and Euro 1.2 million to suppliers of plants;
- in favour of Gres Panaria Portugal for a total of Euro 2 million of bank guarantees granted by an Italian bank to the Portuguese company and Euro 3.2 million to suppliers of plants;
- in favour of AGL Panaria for 15 million Rupees on bank guarantees (corresponding to around Euro 0.2 million).

The loan contracts do not contain any covenants.

6) COMMENTS ON THE MAIN INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

These revenues are analysed by geographical area as follows:

	31-Dec-17	31-Dec-16	Change
Italy	70,409	64,087	6,322
EU countries	68,734	68,769	(35)
Non-EU countries	48,475	43,453	5,022
Intercompany	16,394	15,304	1,090
(Less) Rebates	(2,548)	(2,340)	(208)
Total revenues	**201,464**	**189,273**	**12,191**

Panariagroup Industrie Ceramiche S.p.A. recorded a good growth in total revenues of 6.4% (Euro 12.1 million).

More details can be found in the Directors' Report.

6.b. Other revenues

“Other revenues” are made up as follows:

	31-Dec-17	31-Dec-16	Change
Expense recoveries (displays, transport)	1,739	1,909	(170)
Gains on the sale of property	159	37	122
Out-of-period income	383	218	165
Intercompany services	2,533	3,328	(795)
Sale of the Cotto d’Este customer list	-	531	(531)
Indemnities for damages suffered	275	628	(353)
Capitalisation of own work	370	755	(385)
Energy income	2,340	1,828	512
Grants	1,250	953	297
Other	116	268	(152)
Other revenues	**9,165**	**10,455**	**(1,290)**

“Expense recoveries” include transport and sample costs recharged to customers.

The item “Sale of the Cotto d’Este customer list” for Euro 531 thousand refers to the value determined by independent appraisal of the list of customers of the Cotto d’Este brand in the United States, sold by the subsidiary Florida Tile.

The item “Capitalisation of own work” refers to the personnel employed for implementation of the new SAP management platform in progress for Euro 370 thousand (with special reference to the development at the

Portuguese subsidiary), in part re-invoiced to the foreign subsidiaries pursuant to the "Cost sharing" contract entered into by the parties.

"Energy income" includes revenues related to the Parent Company's membership of consortiums that collect and make available gas storage and the availability of the associates' energy burden and income from the remuneration of electricity produced by their own photovoltaic systems, income from the assignment of Energy Efficiency Certificates and income from tariff concessions granted for energy intensive companies and income coming from the trading of the surplus greenhouse gas emission shares (EUA).
The increase for the period is mainly attributable to the collection of the last two instalments of the Energy Efficiency Certificates related to the project implemented by the Parent Company and named "Energy-efficiency upgrading of Toano furnaces", completed in 2017.

"Grants" refer to the various subsidised amounts, including staff training expense, grants received for R&D industrial projects and the current portion of grants received as compensation for damages suffered in the 2012 earthquake (the latter overlap with the amortisation of improvement works carried out and capitalised).

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	31-Dec-17	**31-Dec-16**
Raw materials	25,701	23,108
Ancillary and consumable materials	11,869	11,374
Finished and semi-finished products and goods for resale	9,598	8,888
Packaging	9,201	8,484
Change in inventories	(728)	(261)
Other	877	780
Raw materials	**56,518**	**52,373**

The overall growth in item "Raw materials" is attributable primarily to the increase in turnover, as already described in the Directors' Report.
The item "Finished and semi-finished products and goods for resale" refers to purchases of ceramic material from third parties.

7.b. Services, leases and rentals

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

	31-Dec-17	31-Dec-16
Property rental	5,626	5,605
Rentals of plant, vehicles, computers	2,535	2,481
Commissions	12,660	12,335
Utilities	19,120	20,204
Commercial expenses and advertising	5,305	4,740
Sub-contract work	11,803	9,914
Maintenance	5,419	5,379
Transportation	7,567	7,035
Industrial services	7,299	6,130
Directors' and statutory auditors' fees	703	862
Consulting fees	2,559	2,177
Insurance	588	491
Travel expenses	1,810	1,571
Temporary employment	4,583	3,338
Other	1,347	1,041
Services, leases and rentals	**88,924**	**83,303**

"Property rental" includes the rents that the Company pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the Company carries on its business. The rent contract is for eight years (with tacit renewal on first expiry in 2011 for another eight years) with an annual rent initially set at Euro 4,500 thousand and which is increased each year in line with ISTAT statistical data. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

7.c. Personnel costs

Personnel costs passed from Euro 50,830 thousand as at 31 December 2016 to Euro 50,914 thousand as at 31 December 2017, substantially unchanged. The impact on the value of production is less than last year by 1.8%.

Personnel costs can be broken down as follows:

	31-Dec-17	31-Dec-16
Wages and salaries	36,279	36,332
Social security contributions	12,141	12,104
Severance indemnities	2,494	2,394
	50,914	**50,830**

The average number of people employed by the Company during the year was as follows:

	31-Dec-17	31-Dec-16
Managers	38	36
Supervisors	34	34
White collar	229	219
Foremen	18	23
Blue collar	467	475
	786	**787**

Compared to the previous year, the average number of people employed reflects the situation of total costs, that remained substantially unchanged with respect to 2016.

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31-Dec-17	31-Dec-16
Out-of-period expenses	472	160
Gifts	106	45
Contributions to trade associations	103	95
Losses on disposals	16	222
Indirect taxes	904	769
Office equipment	129	117
Other	282	266
	2,012	**1,674**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

The charge for depreciation and amortisation for the year ended 31 December 2017 is up slightly on the prior year from Euro 10,684 thousand to Euro 11,543 thousand, due to relevant investments made in the last two years.

8.b. Provisions and impairments

The item "Provisions and impairment", amounting to Euro 579 thousand, includes allocations for agents termination indemnities for Euro 377 thousand, allocations to adjust the provision for properties held for sale for Euro 53 thousand and impairment losses on receivables for Euro 149 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31-Dec-17	31-Dec-16
Interest on short-term bank payables	(34)	(5)
Interest expense on medium/long-term loans	(644)	(714)
Financial expense on severance indemnity liability	(48)	(113)
Fair value losses on derivatives	-	(181)
Other	(219)	(214)
Total financial expense	**(945)**	**(1,227)**
Bank interest income	7	5
Interest on receivables	4	7
Fair value gains on derivatives	47	-
Interest receivable on intercompany loans	304	195
Total financial income	**362**	**207**
TOTAL FINANCIAL INCOME AND EXPENSE	**(583)**	**(1,020)**
Exchange losses	(2,891)	(2,014)
Exchange gains	522	2,865
TOTAL EXCHANGE GAINS AND LOSSES	**(2,369)**	**851**
Write-backs on equity investments in subsidiaries	-	-
Impairment losses on equity investments in subsidiaries	-	(69)
Impairment of JV equity investments (Equity Method)	(172)	(358)
Dividends from subsidiaries	1,485	1,980
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	**1,313**	**1,553**
Financial losses on discounting	-	-
Financial gains on discounting	114	60
DISCOUNTING GAINS (LOSSES)	**114**	**60**
Total financial income (expense)	**(1,525)**	**1,444**

The total amount of financial income and expenses decreased compared to the previous year mainly due to the exchange rate trends that generated an overall loss of Euro 2,369 in 2017, against a gain of Euro 851 in 2016.

Financial income and expense - Sensitivity analysis

As previously stated in the section on "Financial risks", the Company 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 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	Higher (Lower) Pre-tax profit € mln
+ 0.50%	-0.4
+ 1.00%	-0.7
+ 1.50%	-1.1
+ 2.00%	-1.5

Exchange rates (EUR/USD)

Rate	Higher (Lower) Pre-tax profit € mln
1.00	+4.2
1.10	+1.4
1.20	-1.0
1.30	-3.0
1.40	-4.7

* Hypothesis of a constant interest rate over the entire period

Sensitivity analysis showed that even in case of particularly unfavourable scenarios in exchange and interest rates, the occurrence of which is not likely, however, the company's balance sheet and financial strength would not be compromised.

10. INCOME TAXES

10.a. Income taxes

Income taxes for the financial year were negative at Euro 1,521 thousand.

A reconciliation of the main differences between the theoretical tax charge and the actual tax charge is given below.

Reconciliation between the theoretical tax rate and the actual tax rate
(in thousands of Euro)

THEORETICAL TAX RATE

A	Pre- Tax profit	6,347
B	Personnel costs	50,913
C	Net finance costs (net of w rite-dow ns and revaluations of invest	3,010
D	IRAP deduction from tax w edge	49,354

			Theoretical tax	**Theoretica l "Tax Rate"**
A	Theoretical taxable income for IRES purpose	6,347	1,523	**24.00%**
A+B+C-D	Theoretical taxable income for IRAP purpose	10,916	426	**3.90%**
CF1	Theoretical Tax Charge		**1,949**	**30.71%**
	No taxation of earthquake grants		**(249)**	**-3.92%**
	Italian's allow ance for corporate equity (ACE)		**(34)**	**-0.54%**
	Dividends - Taxation 5%		**(339)**	**-5.33%**
	IRES Non-deductible costs		**192**	**3.03%**
	IRAP Non-deductible costs		**239**	**3.76%**
	Benefit from fiscal consolidation		**(115)**	**-1.81%**
	Other		**(122)**	**-1.92%**
	ACTUAL tax charge		**1,521**	**23.96%**

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, the basic earnings per share of Euro 0.107 are disclosed at the foot of the income statement (Euro 0.074 per share for the year ended 31 December 2016).

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

No events/transactions were recorded during the year that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. The Company's management has interpreted “significant non-recurring events and transactions” to mean those falling outside the normal course of business.

POSITIONS OR TRANSITIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

No events/transactions were recorded during the year ended 31 December 2017 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 year 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”.

SEGMENT REPORTING

The application of IFRS 8 – Operating segments became compulsory on 1 January 2009. This 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.

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 related disclosures required by paragraphs 32-33 of IFRS 8 have been provided in the Directors' Report.

RELATED PARTY TRANSACTIONS

The “Regulation containing instructions on related-party transaction”, adopted by CONSOB Resolution 17221 of 12 March 2010 and subsequently amended by CONSOB Resolution 17389 of 23 June 2010 implemented art. 2391-bis of the Italian Civil Code.
By resolution on 23 April 2014, the Board implemented the procedure on related parties, which takes account of the additional instructions on how to apply the new rules provided in CONSOB Communication DEM/10078683 of 24 September 2010.
The purpose of this procedure is to lay down the approach to be taken in identifying, reviewing and approving transaction to be carried out by Panariagroup, or by its subsidiaries, with related parties to ensure that they are transparent and fair from both a substantial and procedural point of view.
The identification of transactions with related parties is based on CONSOB Regulation.
The Group have transactions with related parties, mainly the parent company **Finpanaria S.p.A.** (Parent company that does not exercise any management and coordination) and to **Immobiliare Gemma S.p.A.** (Affiliated company, controlled by Finpanaria), as well as persons responsible for administration and management, their family members and any companies controlled by them. The transactions include

commercial and real property referred to the rental of real estate where parent company operates and guarantees.
In 2017 there were no transactions with related parties other than Finpanaria S.p.A. and Immobiliare Gemma S.p.A.

Operation with related parties are described below:

INCOME STATEMENT
(in thousands of euro)

REVENUES	**Finpanaria**	**Imm. Gemma**	**Total**
Services	32	26	**58**
Total revenues	**32**	**26**	**58**

Revenues for services refer to consulting provided to Finpanaria S.p.A. and Immobiliare Gemma for administrative and organisational services.

COSTS	**Finpanaria**	**Imm. Gemma**	**Total**
Rental expense	-	5,478	**5,478**
Commission for guarantees received	6	94	**100**
Total costs	**6**	**5,572**	**5,578**

Rental expense refers to the rents paid for all of the buildings used for Panariagroup Industrie Ceramiche S.p.A.'s production and logistics activities.
Commissions are a consideration for the guarantees received, which are described in the "due to banks - non-current".

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	0.03%	0.91%	0.29%
Costs	2.55%	87.88%	28.07%

* 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**

As regards Receivables due to Finpanaria, of a tax nature, the parent company reports a tax receivable of the same amount, still not collected.

All related party transactions are carried out on an arm's length basis.
In this connection, 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 and additions.

Other related parties of the company include the subsidiaries:
Gres Panaria Portugal S.A.
Panariagroup USA Inc.
Lea North America LLC.
Florida Tile Inc.
Montanari Ceramiche S.r.l.

For transactions with these subsidiaries, refer to the section “Transactions with subsidiaries” in the Directors' Report.

ATTACHMENTS

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

- Statement of assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws
- Statement of changes in intangible assets from 1 January 2016 to 31 December 2017
- Statement of changes in property, plant and equipment from 1 January 2016 to 31 December 2017
- Statement of changes in financial assets
- Statement of changes in net financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuers' Regulation
- Certification of the financial statements in accordance with art. 81-ter of CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Sassuolo, 16 March 2018

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws

Statement of assets held for which revaluations were made in accordance with specific laws
(in thousands of Euro)

Various types of revaluation	Land and buildings Revaluation	Plant and Machinery Revaluation	Equipment Revaluation	Other Assets Revaluation	TOTAL Revaluation
Law 576 of December 2, 1975	-	-	-	-	-
Law 72 of March 19, 1983	-	601	36	31	668
Law 408 of December 29, 1990	-	-	-	-	-
Law 413 of December 30, 1991	-	-	-	-	-
Law 342 of November 21, 2000	-	4,900	-	345	5,245
Ending Balance	**-**	**5,501**	**36**	**376**	**5,913**

As of December 31, 2017 revaluations made in previous years have been fully depreciated

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in intangible assets from 1 January 2016 to 31 December 2017

Statement of changes in intangible assets from 1 January 2016 to 31 December 2017
(in thousands of Euro)

	Start-up costs and costs of expansion	Research and Advertising capitalized	Patents and intellectual property	Concessions, licenses and trademarks	Other intangible assets	Intangible assets in progress	TOTAL
Balance at 1 January 2016	**0**	**0**	**0**	**761**	**0**	**1,234**	**1,995**
Increases	-	-	-	152	-	3,313	3,465
Reclassifications	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Ammortisation	-	-	-	(305)	-	-	(305)
Balance at 31 December 2016	**0**	**0**	**0**	**608**	**0**	**4,547**	**5,155**
Increases	-	-	-	210	-	782	992
Reclassifications	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Ammortisation	-	-	-	(290)	-	-	(290)
Balance at 31 December 2017	**0**	**0**	**0**	**528**	**0**	**5,329**	**5,857**

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in property, plant and equipment from 1 January 2016 to 31 December 2017

Statement of changes in tangible assets from 1 January 2016 to 31 December 2017
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Extraordinary maintenance to third party assets	Equipment and other Assets	Construction in progress and advances	TOTAL
Balance at 1 January 2016	**676**	**30,060**	**4,674**	**1,897**	**6,649**	**43,956**
Increases	-	7,113	2,309	759	79	**10,260**
Ammortisation	-	(8,013)	(1,649)	(717)	-	**(10,379)**
Decreases	(676)	(4)	-	(37)	-	**(717)**
Reclassifications	-	6,273	354	22	(6,649)	**-**
Balance at 31 December 2016	**-**	**35,429**	**5,688**	**1,924**	**79**	**43,120**
Increases	118	8,083	1,704	1,953	252	**12,110**
Reclassifications	(6)	(8,242)	(2,136)	(869)	-	**(11,253)**
Decreases	-	(4)	-	(1)	-	**(5)**
Ammortisation	-	11	-	-	(11)	**-**
Balance at 31 December 2017	**112**	**35,277**	**5,256**	**3,007**	**320**	**43,972**

EXPLANATORY NOTES - ATTACHMENT 4

- Statement of changes in financial assets from 1 January 2016 to 31 December 2017

PANARIAgroup

Statement of changes in financial assets from 1 January 2016 to 31 December 2017
(in thousand of Euro)

	Investments in subsidiaries	Investments in affiliated companies	Investments in parent companies	Investments in other companies	TOTAL
Balance at 31 December 2015	**89,862**	**-**	**-**	**185**	**90,047**
Increases					**-**
In share capital				207	**207**
Write-down of investments				(317)	**(317)**
Revaluation of Investments					**-**
Liquidation subsidiary company	(40)				**(40)**
Balance at 31 December 2016	**89,822**	**-**	**-**	**75**	**89,897**
Increases					**-**
In share capital				400	**400**
Write-down of investments				(186)	**(186)**
Revaluation of Investments					**-**
Balance at 31 December 2017	**89,822**	**-**	**-**	**289**	**90,111**

EXPLANATORY NOTES - ATTACHMENT 5

- Statement of changes in net financial position

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

PANARIAGROUP
FINANCIAL STATEMENT

NET FINANCIAL POSITION
(THOUSANDS OF EURO)

		31-Dec-2017	31-Dec-2016
A	Cash	(6)	(7)
B	Other Cash and cash equivalents	(2,504)	(9,941)
C	Securities held for sale	0	0
D	**Liquidity (A+B+C)**	**(2,510)**	**(9,948)**
E	**Short-term financial assets**	**0**	**0**
F	Due to banks	1,653	8,185
G	Current portion of long-term loans	19,031	20,073
H	Other short-term financial debt	-	-
I	**Short-term financial indebtedness (F+G+H)**	**20,684**	**28,258**
J	**Net short-term financial indebtness (I+E+D)**	**18,174**	**18,310**
K	Non-current portion of long-term loans	75,460	57,452
L	Due to bondholders	-	-
M	Other long-term financial debt	-	-
N	Long-term financial indebtedness (K+L+M)	**75,460**	**57,452**
O	**Net financial indebtness (J+N)**	**93,634**	**75,762**

Net financial indebtedness does not include intercompany receivables (equal to Euro 21.9 million in 2017 and Euro 6.5 million in 2016).
Within the Group's financial strategy, Panariagroup centralized the collection of medium/long-term loans due to the fact that, thanks to its rating, it can benefit from more favourable terms with respect to terms that subsidiaries could obtain individually.

EXPLANATORY NOTES - ATTACHMENT 6

- Directors and Officers

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
Paolo Mussini	Deputy Chairman of the Board and Managing Director	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman and Ordinary administration of the Cotto d'Este Division.
Andrea Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup 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	Indipendente non esecutivo
Francesca Bazoli	Director	Indipendente non esecutivo

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 2016 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
Sonia Bonfiglioli
Tiziana Ferrari
Daniele Prodi

Internal Control Commitee

Name
Tiziana Ferrari
Sonia Bonfiglioli
Daniele Prodi

Supervisory board

Nome e Cognome
Francesco Tabone
Paolo Onofri
Bartolomeo Vultaggio

Independent Auditors

EY S.p.A.

EXPLANATORY NOTES - ATTACHMENT 7

- Disclosure required by article 149-duodecies of the CONSOB Issuers' Regulation

This table, prepared in accordance with article 149-duodecies of the CONSOB Issuers' Regulation, reports the fees payable in 2017 for auditing and other services provided by the independent auditors.

Type of services	Party providing the services	Recipient	Fees earned in 2017
Auditing	EY S.p.A.	Panariagroup S.p.A.	134
Exepenses on auditing serices	EY S.p.A.	Panariagroup S.p.A.	11
Other services	EY S.p.A.	Panariagroup S.p.A.	17
Totale			**162**

EXPLANATORY NOTES - ATTACHMENT 8

- Certification of the 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 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., taking into account the provisions of art. 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, hereby certify:

- the adequacy in relation to the characteristics of the firm and
- the actual application of the administrative and accounting procedures for the formation of the financial statements during the period ended 31 December 2017.

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

3. We also certify that:

3.1 the 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) agree with the balances shown in the books 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 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, 16 March 2018

Managing Directors

Paolo Mussini
Emilio Mussini
Giuliano Pini

Financial Reporting Manager

Damiano Quarta

Financial Statement of the companies extra-UE

Panariagroup Industrie Ceramiche Spa

PANARIAGROUP USA

CONSOLIDATED BALANCE SHEET

(THOUSANDS OF DOLLARS)

ASSETS	31-dec-2017	31-dec-2016
NON-CURRENT ASSETS	**81,187**	**81,254**
Goodwill	0,000	0,000
Intangible assets	9,183	9,238
Property, plant and equipment	44,246	42,399
Financial assets	22,734	24,088
Deferred tax assets	4,770	5,085
Other non-current assets	0,254	0,444
CURRENT ASSETS	**86,884**	**77,736**
Inventories	59,340	50,082
Trade Receivables	19,909	19,280
Due from tax authorities	3,121	1,819
Other current assets	2,417	2,356
Cash and cash equivalents	2,097	4,199
TOTAL ASSETS	**168,071**	**158,990**

LIABILITIES	31-dec-2017	31-dec-2016
EQUITY	**67,686**	**63,020**
Share capital	63,020	63,020
Capital Reserves	3,940	(2,882)
Net Profit	0,726	6,822
NON-CURRENT LIABILITIES	**57,959**	**38,585**
Employee severance indemnities	-	-
Deferred tax liabilities	6,278	6,413
Provisions for risks and charges	0,315	0,302
Due to banks and other sources of finance	50,584	31,078
Other non-current liabilities	0,782	0,792
CURRENT LIABILITIES	**42,426**	**53,445**
Due to banks and other sources of finance	3,063	8,510
Trade payables	32,299	41,333
Due to tax authorities	1,091	0,793
Other current liabilities	5,973	2,809
TOTAL LIABILITIES	**100,385**	**92,030**
TOTAL LIABILITIES AND EQUITY	**168,071**	**158,990**

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31-dec-2017		31-dec-2016	
REVENUES FROM SALES AND SERVICES	**149,850**	**90,4%**	**157,041**	**97,0%**
Change in inventories of finished products	10,490	6,3%	(2,228)	-1,4%
Other revenues	5,374	3,2%	7,149	4,4%
VALUE OF PRODUCTION	**165,714**	**100,0%**	**161,962**	**100,0%**
Raw materials	(65,192)	-39,3%	(64,820)	-40,0%
Services, leases and rentals	(51,670)	-31,2%	(43,354)	-26,8%
Personnel costs	(36,284)	-21,9%	(33,710)	-20,8%
Other operating expenses	(1,456)	-0,9%	(1,623)	-1,0%
PRODUCTION COSTS	**(154,602)**	**-93,3%**	**(143,507)**	**-88,6%**
GROSS OPERATING PROFIT	**11,112**	**6,7%**	**18,455**	**11,4%**
Amortisation and depreciation	(7,308)	-4,4%	(5,618)	-3,5%
Provisions and writedowns	(0,916)	-0,6%	(0,892)	-0,6%
NET OPERATING PROFIT	**2,888**	**1,7%**	**11,945**	**7,4%**
Financial income (expense)	(1,914)	-1,2%	(1,000)	-0,6%
PRE-TAX PROFIT	**0,974**	**0,6%**	**10,945**	**6,8%**
Income taxes	(0,248)	-0,1%	(4,123)	-2,5%
NET PROFIT	**0,726**	**0,4%**	**6,822**	**4,2%**