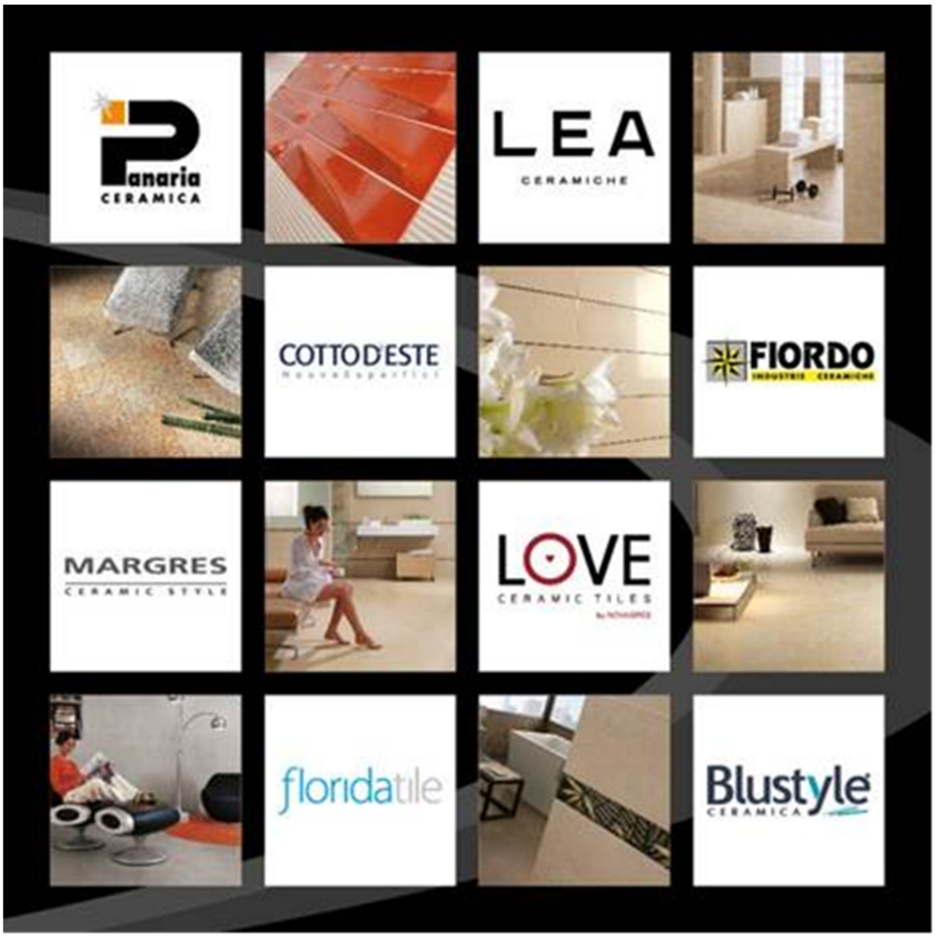
ANNUAL REPORT 2013 - DRAFT



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Panariagroup Industrie Ceramiche

DIRECTORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction

The financial statements for the year ended 31 December 2013 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 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).

The Company adopted the IFRS issued by the International Accounting Standards Board after European Regulation no. 1606 took effect in July 2002, starting with the financial statements for the first half of 2005. 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 2012, with the exception of those international accounting standards which entered into effect as of 1 January 2013 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as of 1 January 2013"; refer to this section for more information. The application of these standards did not have any effects, with the exception of the amendments to accounting standard IAS 19, "Employee benefit", which have been approved by the European Commission through Regulation no. 475/2012, issued on 5 June 2012. The new provisions, effective as of 1 January 2013, involved the restatement of the balances of the balance sheets as of 1 January 2012 and 31 December 2012 as well as of the economic data of 2012.

The Directors' Report does not include any alternative performance measures and so we are not required to provide any of the information indicated by the CESR (Committee of European Securities Regulators) in its Recommendation on Alternative Performance Measures (CESR/05-178b).

The majority shareholder of the Company is the holding company Finpanaria S.p.A.

STRUCTURE OF THE GROUP

The structure of the Group at 31 December 2013 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. The Group is mainly focused on the high-end and deluxe market segment and mainly sell porcelain gres 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 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 S.r.l., based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

Panariagroup Immobiliare, with head office in Finale Emilia, Modena (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.
The company's main activities are the purchase and sale of buildings.

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 Asian Granito India Ltd, a leading manufacturer in the Indian market.

Directors and Officers

Board of Directors

Name	Office	Place and date of birth
Emilio Mussini	Chairman of the Board and Managing Director	Sassuolo (MO), 20/04/1961
Giuliano Mussini	Deputy Chairman of the Board of Directors	Modena, 10/09/1930
Giovanna Mussini	Deputy Chairman of the Board of Directors	Sassuolo (MO), 12/04/1959
Andrea Mussini	Managing Director	Sassuolo (MO), 15/05/1958
Giuseppe Mussini	Managing Director	Sassuolo (MO), 23/11/1962
Paolo Mussini	Managing Director	Sassuolo (MO), 11/02/1958
Giuliano Pini	Managing Director	Modena, 21/05/1952
Marco Mussini	Director	Sassuolo (MO), 21/07/1971
Enrico Palandri(*)	Director	Milan, 02/10/1962
Alessandro Iori(*)	Director	Reggio Emilia, 15/06/1943
Paolo Onofri(*)	Director	Bologna, 11/11/1946

(*) Independent non-executive director

Board of Statutory Auditors

Name	Office	Place and date of birth
Francesca Muserra	Chairman of the Board of Statutory Auditors	Foggia, 14/05/1965
Giovanni Ascari	Standing Auditor	Modena, 13/10/1935
Vittorio Pincelli	Standing Auditor	Frassinoro (MO), 03/08/1943
Massimiliano Stradi	Alternate Auditor	Sassuolo (MO), 16/3/1973
Arianna Giglioli	Alternate Auditor	Milan, 13/08/1974

Independent Auditors

Reconta Ernst & Young S.p.A.

Directors' Report on the 2013 Financial Statements

Results and significant events in 2013

Results

Shareholders,

Even during the course of 2013, international economic activity was characterized by different scenarios in different geographical areas; a decrease in growth rates in emerging markets was accompanied by a confirmation of the trend of economic recovery in North America while the recession within the Eurozone has continued, including negative peaks that affect the Euro-Mediterranean area (Spain, Italy, Greece and Portugal).
Confidence levels, as well as various macroeconomic indicators from the end of 2013, suggest a strengthening of the international economy in upcoming months.
There was also a significant decrease in tension in the financial markets; this could be particularly noted in countries of Mediterranean Europe where there was a strong decrease in the spread of sovereign debt securities and, more generally, a strong recovery in stock prices.
The construction sector, similarly to the economic trend, was subject to a recession in European countries and a vigorous recovery in the United States, while good growth continued in the Asian continent, even if at rates that were more contained compared to the last three years.
Within the Italian market, the fall in real estate activity was confirmed and was due to the joint effects of decreased financial resources, a lower amount of credit from the banking system and increased uncertainty linked to unemployment.
In this context, and compared to 2012, the Company's revenues decreased; this was equally due to a fall in volumes and prices.

In summary, the results of 2013 can be summarized as follows:

- Revenues from sales amounted to Euro 156.0 million, a decrease of 5.5% with respect to 2012.
- Gross operating profit was equal to Euro 3.7 million (Euro 10.7 million in 2012).
- There was a net operating loss of Euro 8.9 million (loss of Euro 3.1 million in 2012).
- The net profit was equal to Euro 3.8 million (Euro 3.8 million in 2012). This result is positively influenced by the writeback of the Investment in Panariagroup USA, equal to Euro 12.3 million, following positive economic results the US subsidiary achieved and the results of the impairment test performed on 31 December 2013. It is however noted that the value of the same investment was written back for Euro 7.2 million in the same period

The economic result of the year was partly influenced by a decrease in revenues but, in particular, reflects the managerial policies that were implemented with determination in 2013 and which aimed to achieve efficient financial management of the company and were realized through a significant decrease in the productive activities of Italian plants in order to decrease net working capital.

It should be noted that this policy allowed us to reduce net working capital by Euro 9 million, with an improvement of the net financial position.

In addition, the Italian company – given the still critical economic environment – conducted more prudential valuations compared to previous years when determining the realisable values of the inventory and of provisions for risks and charges; this resulted in a significant level of provisions.

The last quarter of 2013 was negatively affected – from an economic standpoint – as a result of the greater number of halts in production at the end of the year – related to stock reduction policies – as well as the greater number of provisions; however, there were positive signals in terms of revenues, with grew slightly with respect to the same period of the previous year; a trend reversal with respect to previous periods.

Significant events in 2013

In 2013, the restoration of the site in Finale Emilia – which was affected by the 2012 earthquake – was completed after the office building was finished, thereby allowing all the administrative and commercial personnel to no longer have to work in provisional facilities.

With reference again to the earthquake, it should be noted that the request for public aid – to be used for restoration expenses not covered by insurance and for investments to ensure that buildings are earthquake resistant – has been accepted; on the other hand, the request relative to the plants and temporary delocalization expenses, presented in December 2013, is still being reviewed by the competent authorities.

During 2013, the range of gres laminate products was expanded through the introduction of plates with a thickness of 5.5 mm which, when associated with those of 3 mm that are already found in the catalogue, would allow for a total coverage of applications of this type. Gres laminate products represent an increasing quota of the sales of the Company and continue to be very successful in the market.

In terms of industrial developments, the Company has continued its technological upgrades as well as its strengthening of internal manufacturing departments, with overall technical investments totalling Euro 13.4 million.

In Italy, the expansion of the grinding, cutting and polishing departments has allowed us to internally manage operations which were previously outsourced to external suppliers, thereby significantly reducing costs.

The international economy and industry trends

The growth in global economic activities and in international trade in 2013 continued at a moderate pace and with territorial differences.
In the United States, the signals of a strengthening economy were confirmed, coupled with a decreased uncertainty on budget policies; in addition - and despite the beginning of a tapering in securities purchases on the part of the Federal Reserve - no increases in volatility within the financial markets and in exchange rates were reported.
The growth in emerging markets has continued; risks of a slowdown are, however, still present due to less positive global financial conditions.

In the Euro area, there are signals which indicate a modest recovery which is, however, still fragile, due to the significant slowdowns in the Mediterranean countries and the socio/political tensions within certain countries of Eastern Europe.

In general, the conditions of European and Italian financial markets have improved; the prospects for recovery - combined with the prudent monetary policies of the ECB, and the beginning of a stabilization in governance in Italy - also contributed.

Long-term rates on Italian government securities have fallen; the spread with respect to the return on German bunds fell under 200 basis points from the level of 570 basis points which was reached at the end of 2011. Foreign investment interest for Italian business has returned.

In Italy, GDP stopped falling as of the third quarter of 2013 due to exports and changes in stock levels; the fourth quarter reported slight growth with respect to the same period of 2012. Confidence indices of families have improved slightly despite a level of unemployment which is still very high.

Economic conditions, however, are still very diverse and depend upon the category of firms and the geographic location. The improvement in prospects of large-size industrial firms that are more oriented towards foreign markets is balanced by a more negative situation for companies that primarily work in the domestic market.

Inflation in Italy has continued to decrease, even beyond the forecasts which were made a few months ago, falling to 0.7% at the end of the year compared to 1.2% in 2012; weakness in demand has limited prices in a more accentuated manner than the past and the increase in VAT in October has only been partially transferred to final consumer prices.

The failure of companies to obtain additional credit, despite the improvement in conditions within the financial markets, continues to represent an obstacle to recovery; the banking system is subject to the parameters set by Basel given the credit crunch and the risk of additional insolvencies.

With respect to the construction industry, which is of interest to the Company's activities, during 2013, there were contrasting trends in various geographical areas.

In Italy, there was an intensification of the downturn in buying and selling of property; in 2013, the number of transactions fell to the levels of the early 1990's. This decrease was worsened by the increase in taxes on real estate properties as well as the rigidity of banks in disbursing mortgages and the continued decrease in financial resources of families.

The housing downturn has worsened, particularly with respect to new housing, and despite the re-confirmation of fiscal benefits for energy savings and restructuring.

In the main countries of the Eurozone (with the exception of Germany) there has been a continuing decrease in construction activities; the same uncertainties which were noted above for the Italian market have also affected these countries. The scenario in European countries outside of the Eurozone was different; here modest levels of growth in the construction sector were reported.
In the United States, the recovery of the real estate sector also continued in 2013; the signs of expansion of investments in both residential and commercial real estate were confirmed, while the level of unsold homes has fallen significantly, with increasing prices.

In China, growth rates were slower in the construction sector compared to the last five years despite a still positive trend; in India, the devaluation of the local currency and inflation have slowed down activity in the real estate sector in the last two years.

A general recovery for the entire macroeconomic sector is forecast for 2014.
In Europe, a reversal of the negative trend is expected within the construction sector, including a slight level of growth in 2014 which should further strengthen itself in 2015; in Italy, prospects are less positive and the first signs of recovery are forecast for 2015.
In the United States, the forecast for a positive level of growth was also confirmed for 2014, similarly for China, India and the other primary emerging economies (Africa, Middle East and Far East).

Review of the Company's 2013 results

Income statement at 31 December 2013 compared with 31 December 2012

(in thousands of euro)

	12/31/2013	%	12/31/2012	%	var.
Revenues from sales and services	**156,059**	**102.95%**	**165,182**	**92.28%**	**(9,123)**
Change in inventories of finished products	(11,023)	-7.27%	1,002	0.56%	(12,025)
Other revenues	5,488	3.62%	4,496	2.51%	992
Income from unexpected events	1,062	0.70%	8,315	4.65%	(7,253)
Value of Production	**151,586**	**100.00%**	**178,995**	**100.00%**	**(27,409)**
Raw, ancillary and consumable materials	(35,536)	-23.44%	(43,162)	-24.11%	7,626
Services, leases and rentals	(65,619)	-43.29%	(73,647)	-41.14%	8,028
Personnel costs	(43,766)	-28.87%	(44,597)	-24.92%	831
Changes in inventories of raw materials	(125)	-0.08%	522	0.29%	(647)
Other operating expenses	(1,832)	-1.21%	(1,508)	-0.84%	(324)
Costs from unexpected events	(963)	-0.64%	(5,870)	-3.28%	4,907
Cost of production	**(147,841)**	**-97.53%**	**(168,262)**	**-94.00%**	**20,421**
Gross operating profit	**3,745**	**2.47%**	**10,733**	**6.00%**	**(6,988)**
D&A expenses	(10,189)	-6.72%	(10,592)	-5.92%	403
Provisions	(2,427)	-1.60%	(738)	-0.41%	(1,689)
Provisions from unexpected events	0	0.00%	(2,500)	-1.40%	2,500
Net operating profit	**(8,871)**	**-5.85%**	**(3,097)**	**-1.73%**	**(5,774)**
Financial income and expense	9,544	6.30%	4,036	2.25%	5,508
Pre-tax profit	**673**	**0.44%**	**939**	**0.52%**	**(266)**
Income taxes estimated	3,077	2.03%	2,863	1.60%	214
Net profit (loss) for the period	**3,750**	**2.47%**	**3,802**	**2.12%**	**(52)**

Consolidated revenues

Revenues from sales declined by **5.52**% overall, falling from Euro 165.2 million in 2012 to Euro 156.0 million in 2013.

Principal markets

A good level of growth in revenues continued within the US market; in other markets, particularly in those of the Euro area, decreases continued to be reported, in some cases of significant amount.

In the last quarter, there were signs of recovery on the **Italian market** which reduced the negative gap relative to the previous year by 2.5%; this result is better than the average data of the sector, which reveals a decrease of more than 5% on the domestic market.
The Italian market share represents 41.6% of total sales.

The **European market** fell overall by 11.4% in the primary countries of Western Europe, with specific peaks in France, Germany and Holland.
The European market share represents 36.0% of total sales.

With total sales of Euro 12.3 million, the **US market** recorded slight growth of 1.15%, which rises to 4.75% if one considers the sales expressed in USD.
The US market share represents 7.7% of total sales.

In **other markets** (**Asia, South America, Oceania and Africa**) the Company realized a slight level of growth by fully recovering the negative gap which was reported in the first half of the year.
The share of these “Other Markets” represents 14.7% of total sales.

Performance of the Company's brands

The concentration of Italian brands within their domestic market and in the primary Western European nations has increased their exposure to the negative economic period, thereby resulting in decreases in sales.

Within this environment, Italian brands have overall lost 6%.

We expect excellent results within Asian markets and in Oceania for the year that has just begun due to the strengthening of the growth strategies of Panariagroup Trade - the division of the Company which is focused on these areas – as well as the positive economic conditions.

With regard to Italian brands (Panaria, Lea, Cotto d'Este, Fiordo and Blustyle), we believe that we can successfully pursue a strategy for the maintenance and defence of market shares within a market that – in recent months – has been providing slight signs of recovery.

Prospects for 2014 consolidated revenues are therefore positive.

Operating results

Gross operating profit came to Euro 3.7 million, representing 2.5% of the value of production (Euro 10.7 million, 6.0%, in 2012).

The main factors behind this change in profits are:

- a decrease in sales of Euro 9.1 million, resulting in an estimated decrease in the margin of approximately Euro 3.2 million.
- a significant decrease in volumes with respect to 2012, equal to 15.4%, resulting in a negative effect of at least Euro 2.6 million due to the greater incidence of fixed costs. The planning of production halts was implemented in order to significantly reduce the level of stock.
- Operations for the disposal of obsolete and slow turnover products intensified, in particular, in the last quarter of the year.
- The economic benefits of reduced outsourcing of cutting, grinding and polishing operations with decreased use of external suppliers.
- The rationalization and decrease of costs of commercial nature.

There was a **net operating loss** of Euro 8.9 million (loss of Euro 3.1 million in 2012).

As noted above, this result was negatively affected by the greater number of provisions for impairments which exceeded those of the previous year by Euro 1.7 million.

The depreciation and amortisation charge is substantially in line with 2012.

The balance between financial expense and income improved due to the following dynamics:

- the investment in Panariagroup USA (equal to Euro 12.3 million) was totally written back during the year after being already partially written back in 2012 (for Euro 7.2 million);
- as for ordinary operations, the currency exchange balance was negative due to the depreciation of the USD while the cost of debt fell due to a fall in rates.

The **pre-tax result** is a profit of Euro 0.7 million, down by Euro 0.2 million compared to 2012.

Net profit for the year totals Euro 3.8 million, in line with the previous year.

Review of the balance sheet

Financial position

(in thousands of Euro)

	12/31/2013	12/31/2012
Inventories	72,146	84,894
Accounts Receivable	53,100	57,184
Other current assets	7,840	10,361
CURRENT ASSETS	**133,086**	**152,439**
Account Payables	(32,907)	(41,583)
Other current liabilities	(19,191)	(20,901)
CURRENT LIABILITIES	**(52,098)**	**(62,484)**
NET WORKING CAPITAL	**80,988**	**89,955**
Goodwill	0	0
Intangible assets	647	748
Tangible assets	39,773	39,349
Equity Investments and other financial assets	90,219	77,893
FIXED ASSETS	**130,639**	**117,990**
Receivables due after following year	20,172	28,876
Provision for termination benefits	(6,021)	(6,294)
Provision for risk and charge	4,221	(1,041)
Other payables due after the year	(1,321)	(1,972)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**17,051**	**19,569**
NET CAPITAL EMPLOYED	**228,678**	**227,514**

Short term financial assets	(8,858)	(3,321)
Short term financial debt	42,659	29,087
NET SHORT TERM FINACIAL DEBT	**33,801**	**25,766**
Mid-Long term financial debt	48,193	58,745
NET FINANCIAL POSITION	**81,994**	**84,511**
Group Shareholders' Equity	146,684	143,003
SHAREHOLDERS' EQUITY	**146,684**	**143,003**
TOTAL SOURCES OF FOUNDS	**228,678**	**227,514**

(*) It should be noted that - as highlighted in the introduction to the Directors' Report, and as illustrated in detail in the subsequent Explanatory Notes – the retroactive application of amendments to IAS 19 ("Employee benefits") resulted in the restatement, as of 31 December 2012, of the items "Termination benefits", "Provisions for deferred taxes" and "Equity".

As required by Consob Communication DEM/6064293 of 28 July 2006, a reconciliation between the above consolidated reclassified balance sheet and the related format used for IFRS purposes is attached to the Directors' Report.

Net working capital

The benefits of the policies which were initiated in 2013 by the Company are particularly evident in the significant decrease in net working capital, totalling approximately Euro 9 million.

This change is ascribable to the significant decrease in warehouse inventories which fell by Euro 12.8 million along with a decrease in the following: trade receivables (Euro -4.1 million); other current assets (Euro -2.5 million); trade payables (Euro -8.7 million) and other current liabilities (Euro -1.8 million).

We will continue to focus on net working capital in 2014 as well in order to reduce it further.

Non-current assets

Non-current assets increased by Euro 12.6 million in 2013.

The increase was due to the following factors:

- Writeback of the investment in Panariagroup USA for Euro 12.3 million;
- Higher value of the tangible and intangible fixed assets for Euro 0.3 million as the difference between net investments in the year, equal to Euro 10.5 million, and the depreciation and amortisation for the year totalling Euro 10.2.

Investments in the year include Euro 1.8 million relative to improvements in the site of Finale Emilia and pertaining to post-earthquake.

Financial cash flow
(thousands euro)

	12/31/2013	12/31/2012
Net financial position (debt) - beginning	**(84,511)**	**(81,587)**
Net Result for the period	3,751	3,802
D & A	10,189	10,592
Non-monetary changes	(16,650)	(4,446)
Internal operating Cash flow	**(2,710)**	**9,948**
Change in net working capital and other mid-long term financial asset/debt	7,164	(3,660)
Net Investments	(10,512)	(6,877)
Increase in financial assets	(245)	(366)
Change in loans to Subsidiaries	8,890	(1,969)
Changes in Equity	(69)	0
Net financial position (debt) - final	**(81,993)**	**(84,511)**

The net financial position has improved with respect to the end of 2012 by Euro 2.5 million. This result should be considered extremely positive given that year ended with an operating loss and that the Group implemented significant investments totalling Euro 16.6 million; this was in fact made possible by the operations that were implemented to reduce net working capital and by the considerable repayments of loans made by Florida Tile.
We believe that, by the end of 2014, we can further improve the net financial position given the forecasted increase in operational margins, the further decrease in net working capital and the planned investments which are less than in 2013.

Equity

Equity increased from Euro 143.0 million to Euro 146.7 million, an increase of Euro 3.7 million due to the economic result of the year.

Segment information

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

This standard requires the identification of operating segments with reference to the system of internal reporting used by senior management to allocate resources and assess performance.

The previous standard, IAS 14 – Sector reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits of the segments themselves; the reporting system solely served as the starting point for this identification.

In terms of their economic and financial characteristics, the products distributed by the Company 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 analysis 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 presented 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:

PANARIAGROUP

ASSETS	Italy	Europe	USA	Other	12/31/2013
CURRENT ASSETS	**119,725**	**9,486**	**6,093**	**6,638**	**141,942**
Inventories	72,146				72,146
Trade Receivables	30,883	9,486	6,093	6,638	53,100
Due from tax authorities	3,450				3,450
Other current assets	4,388				4,388
Cash and cash equivalents	8,858				8,858
NON-CURRENT ASSETS	**51,271**	**46,098**	**63,296**	**352**	**161,017**
Goodwill	0				0
Intangible assets	647				647
Property, plant and equipment	39,051		722		39,773
Financial assets	539	42,598	46,730	352	90,219
Deferred tax assets	10,206				10,206
Other non-current assets	828	3,500	15,844		20,172
TOTAL ASSETS	**170,996**	**55,584**	**69,389**	**6,990**	**302,959**
Net investments in tangible assets 2013	**10,220**				**10,220**

Research and development activities

Research and development activities, a distinguishing feature of our Company in this sector, continued as before during 2013.

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 2013, and in particular those presented at the now regular event of CERSAIE 2013 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 2013 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 Company for the conduct of its business.

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 23 April 2013, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2013:

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 2012, as no purchases or sales were made during 2013.

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 2013; there are therefore no disclosures to be made in accordance with article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

Transactions with subsidiaries

As at 31 December 2013 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. The company, set up as a financial holding company for the United States area, 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 Francesco S.r.l.**, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup Immobilare S.r.l.**, based in Finale Emilia (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.

The investee companies realized the following results in 2013:

- Gres Panaria Portugal S.A. realized a net turnover of Euro 44.2 million and reported a loss of Euro 2.1 million after depreciation and amortisation, provisions and taxes for Euro 2.6 million; total assets of the Portuguese subsidiary amount to Euro 60.8 million and equity, including the 2013 loss, is Euro 37.8 million.
- The subsidiary Panariagroup USA realized a net turnover of USD 10.1 million, with a profit of USD 0.9 million after depreciation and amortisation, provisions and taxes for USD 0.6 million; total assets of the company amount to USD 89.5 million and equity, including the 2013 profit, is USD 77.4 million.
- The subsidiary Lea North America realized a net turnover of USD 9.4 million and made a profit of USD 0.5 million after depreciation and amortisation, provisions and taxes for USD 0.3 million; total assets of the US subsidiary amount to USD 7.8 million and equity, including the 2013 profit, is USD 3.4 million.
- The subsidiary Florida Tile Inc. realized a net turnover of USD 102.2 million and realized a profit of USD 1.9 million after depreciation and amortisation, provisions and taxes for USD 6.0 million; total assets of the US subsidiary amount to USD 83.4 million and equity, including the 2013 profit, is USD 3.3 million.
- The subsidiary Montanari Francesco S.r.l. realized a net turnover of Euro 1.8 million and realized a net profit of Euro 66 thousand; the sum of depreciation and amortisation, allocations and taxes is zero. Total assets amount to Euro 1,289 thousand and equity, including 2013 profit, is Euro 170 thousand.
- The subsidiary Panariagroup Immobiliare S.r.l. made no sales during the year and realized a loss of Euro 6 thousand. Total assets amount to Euro 135 thousand and equity, including the 2012 loss, is Euro 34 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	Gres Panaria	Panariagroup USA	Florida Tile	Lea North America	Panariagroup Immobiliare	Montanari
Income Statement - Revenues	Sale of Finished Products	1,173	3,044	1,471	4,695		357
Income Statement - Revenues	Sale of Raw Materials	1		1			
Income Statement - Revenues	Services	256	40	291	53		9
Income Statement - Costs	Purchase of finished products	3,686					8
Income Statement - Costs	Services						
Income Statement - Costs	Chargeback of costs	255					
Income Statement - Income	Interest on loans	60		492			1
Income Statement - Income	Dividends						
Balance Sheet - Liabilities	Liabilities	1,034					32
Balance Sheet - Receivables	Receivables	818	1,855	1,719	2,238		298
Balance Sheet - Receivables for Dividends							
Balance Sheet - Loans	Receivables	3,500		15,845		100	200

Atypical and/or unusual transactions

As required by CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that during 2013 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

Privacy policy

Pursuant to Attachment B) of Italian Legislative Decree 196/2003 (Privacy Act), the directors report that the Company has come into line with the minimum security measures that this law requires.

More specifically, pursuant to point 26 of Attachment B), the Company has duly drawn up the Security Policy Document for the year 2013. It is on file at the registered office and can be consulted by authorised parties and/or the competent control authorities.

Significant subsequent events

No significant events have taken place in the period subsequent to the end of December 2013.

Outlook for Company operations

Management in the year 2013 aimed, from the beginning, to attain specific objectives for financial optimization which resulted in effective improvements that significantly cut into the income results of the year.

In these initial months of the year, the first signs of recovery of the European markets are already visible; these have been strengthened by the growth trend in the North American market as well as in a significant number of Asian and African markets.

In the year 2014 we expect an improvement in efficiency due to the restructuring of certain logistics and commercial departments within the Italian Business Unit.

With regard to costs, we expect significant savings in energy rates, totalling approximately 10% for the Italian Company; in addition to this expected decrease in rates, there will be additional benefits provided by currently effective regulations for energy high-consumer companies.

By means of the operations which were implemented in 2013, we believe that we have strengthened the foundations for future growth and have established the conditions to attain a significant improvement of margin already in 2014.

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).

Risk management

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

GENERAL ECONOMIC RISK

Even in 2013, some of the primary markets of operation of the Company were characterized by a low level of growth and a general situation of uncertainty for companies and families.

The precarious state of market conditions has been accentuated by a severe and generalised credit squeeze for both consumers and companies. This liquidity shortage is having negative repercussions on the industrial development of many business sectors, ours included. Should this situation of weakness and uncertainty become protracted, the activities, strategies and prospects for our Company could be adversely affected, with a negative impact on the balance sheet, income statement and cash flows of the Company.

CREDIT AND LIQUIDITY RISK

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

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 Company 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 Company'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 2012 and 2013. An unexpected increase in their prices could therefore have a negative impact on the Company's results in the short term.

Environmental protection, personnel costs and regulations relating to the sector

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

The Company 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, the company 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 2013 was equal to 822 individuals, a decrease of 6 employees compared with the average number in 2012.

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 12/31/2013

Name and Last Name	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2013	Number of shares sold in 2013	Number of shares held at 12/31/2013	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	794,144	108,818	10,000	892,962	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	189,364			189,364	Direct	Property
Pini Giuliano	Panariagroup	63,617			63,617	Direct	Property
		7,880			7,880	Spouse	Property
Mussini Emilio	Panariagroup	139,436			139,436	Direct	Property
		13,080			13,080	Spouse	Property
Mussini Giuseppe	Panariagroup	56,400			56,400	Direct	Property
		30,400			30,400	Spouse	Property
Mussini Andrea	Panariagroup	633,859			633,859	Direct	Property
Mussini Marco	Panariagroup	42,560		36,577	5,983	Direct	Property
		9,340			9,340	Spouse	Property
Mussini Paolo	Panariagroup	130,000		120,000	10,000	Direct	Property
Iori Alessandro	Panariagroup	440			440	Direct	Property
		4,200			4,200	Spouse	Property
Palandri Enrico	Panariagroup	-			-	Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Mussera Francesca	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property
Totale		**2,119,120**	**108,818**	**166,577**	**2,061,361**		

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2013
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2012
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

Allocation of the 2013 profit

We propose that the Shareholders' Meeting allocate the 2013 profit as follows:

- 5% of net profit to the legal reserve
- 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

Sassuolo, 14 March 2014 ***Emilio Mussini***

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position figures at 12/31/2013

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	12/31/2013	RIF
CURRENT ASSETS	141,944	
Inventories	72,146	(A)
Trade Receivables	53,100	(B)
Due from tax authorities	3,451	(C)
Other current assets	4,389	(D)
Cash and cash equivalents	8,858	(E)
NON-CURRENT ASSETS	161,017	
Goodwill	-	(F)
Intangible assets	647	(G)
Property, plant and equipment	39,773	(H)
Financial assets	90,219	(I)
Deferred tax assets	10,206	
Other non-current assets	20,172	(L)
TOTAL ASSETS	302,961	

LIABILITIES AND EQUITY	12/31/2013	
CURRENT LIABILITIES	94,757	
Due to banks and other sources of finance	42,659	(M)
Trade payables	32,907	(N)
Due to tax authorities	2,334	(O)
Other current liabilities	16,857	(P)
NON-CURRENT LIABILITIES	61,520	
Employee severance indemnities	6,021	(Q)
Deferred tax liabilities	2,549	(R)
Provisions for risks and charges	3,436	(S)
Due to banks and other sources of finance	48,193	(T)
Other non-current liabilities	1,321	(U)
TOTAL LIABILITIES	156,277	
EQUITY	146,684	
Share capital	22,678	(V)
Reserves	120,256	(W)
Net profit (loss) for the year	3,750	(X)
TOTAL LIABILITIES AND EQUITY	302,961	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	12/31/2013	RIF
Inventories	72,146	(A)
Trade Receivable	53,100	(B)
Other current assets	7,840	(C)+(D)
CURRENT ASSETS	133,086	
Trade Payables	(32,907)	(N)
Other current liabilities	(19,191)	(O) + (P)
CURRENT LIABILITIES	(52,098)	
NET WORKING CAPITAL	80,988	
Goodwill	0	(F)
Intangible assets	647	(G)
Property, plant and equipment	39,773	(H)
Equity Investments and other financial assets	90,219	(I)
FIXED ASSETS	130,639	
Receivables due beyond 12 months	20,172	(L)
Employee severance indemnities	(6,021)	(Q)
Provision for risk and charge and deferred taxes	4,221	(R)+(S)
Other liabilities due beyond 12 months	(1,321)	(U)
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	17,051	
NET CAPITAL EMPLOYED	228,678	
Short term financial assets	(8,858)	(E)
Short term financial indebtedness	42,659	(M)
NET SHORT TERM FINACIAL INDEBTEDNESS	33,801	
Mid-Long term financial debt	48,193	(T)
NET FINANCIAL POSITION	81,994	
Equity	146,684	(V)+(W)+(X)
EQUITY	146,684	
TOTAL SOURCES OF FOUNDS	228,678	

PANARIA group
INDUSTRIE CERAMICHE S.P.A.

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
figures at 12/31/2012

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	12/31/2012	RIF
CURRENT ASSETS	**155,760**	
Inventories	84,894	(A)
Trade Receivables	57,184	(B)
Due from tax authorities	5,809	(C)
Other current assets	4,552	(D)
Cash and cash equivalents	3,321	(E)
NON-CURRENT ASSETS	**154,504**	
Goodwill	-	(F)
Intangible assets	748	(G)
Property, plant and equipment	39,349	(H)
Financial assets	77,893	(I)
Deferred tax assets	7,638	(J)
Other non-current assets	28,876	(L)
TOTAL ASSETS	**310,264**	

LIABILITIES AND EQUITY	12/31/2012	RIF
CURRENT LIABILITIES	**91,571**	
Due to banks and other sources of finance	29,087	(M)
Trade payables	41,583	(N)
Due to tax authorities	2,467	(O)
Other current liabilities	18,434	(P)
NON-CURRENT LIABILITIES	**75,690**	
Employee severance indemnities	6,294	(Q)
Deferred tax liabilities	3,615	(R)
Provisions for risks and charges	5,064	(S)
Due to banks and other sources of finance	58,745	(T)
Other non-current liabilities	1,972	(U)
TOTAL LIABILITIES	**167,261**	
EQUITY	**143,003**	
Share capital	22,678	(V)
Reserves	116,523	(W)
Net profit (loss) for the year	3,802	(X)
TOTAL LIABILITIES AND EQUITY	**310,264**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	12/31/2012	RIF
Inventories	84,894	(A)
Trade Receivable	57,184	(B)
Other current assets	10,361	(C)+(D)
CURRENT ASSETS	**152,439**	
Trade Payables	(41,583)	(N)
Other current liabilities	(20,901)	(O) + (P)
CURRENT LIABILITIES	**(62,484)**	
NET WORKING CAPITAL	**89,955**	
Goodwill	0	(F)
Intangible assets	748	(G)
Property, plant and equipment	39,349	(H)
Equity Investments and other financial assets	77,893	(I)
FIXED ASSETS	**117,990**	
Receivables due beyond 12 months	28,876	(L)
Employee severance indemnities	(6,294)	(Q)
Provision for risk and charge and deferred taxes	(1,041)	(R)+(S)+(J)
Other liabilities due beyond 12 months	(1,972)	(U)
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**19,569**	
NET CAPITAL EMPLOYED	**227,514**	
Short term financial assets	(3,321)	(E)
Short term financial indebtedness	29,087	(M)
NET SHORT TERM FINACIAL INDEBTEDNESS	**25,766**	
Mid-Long term financial debt	58,745	(T)
NET FINANCIAL POSITION	**84,511**	
Equity	143,003	(V)+(W)+(X)
EQUITY	**143,003**	
TOTAL SOURCES OF FOUNDS	**227,514**	

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 short-term net financial indebtedness.

		12/31/2013
	Securities	-
	Cash and cash equivalents	(8,858)
(1)	**Short-term financial assets**	**(8,858)**
(2)	Due to banks	17,489
	Current portion of long-term loans	25,170
	Leases	-
	Short-term financial indebtedness	**42,659**
	Non-current portion of long-term loans	48,193
	Leases	-
	Long-term financial indebtedness	**48,193**
(3)	**Net financial indebtedness**	**81,994**

(1)+(2)	**Net short-term financial indebtedness**	**8,631**	**= (X)**
	(as reported in IFRS cash flow statement)		

(3)	**Total net financial position**	**81,994**	**= (Z)**
	(as reported in summary of cash flow contained in the Directors' Report)		

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSAND OF EURO)

(in thousands of euro)	31st dec 2013	
A - OPERATIONS		
Net result of the period	3,751	**A**
Amortisation and impairment	10,189	**B**
Deferred tax liabilities (assets)	(3,634)	**C**
Net change in Employee severance indemnities	(273)	**D**
Net change in provisions	(662)	**E**
Revaluation and write-down of the value of equity investments	(12,081)	**F**
Dividends by controlled company not yet paid	-	**G**
Cash flow (absorption) from operations prior to changes in working capital	*(2,710)*	
(Increase)/(decrease) in trade receivables	4,098	
(Increase)/(decrease) in inventories	11,768	
(Increase)/(decrease) in trade payables	(8,676)	
Net change in other assets/liabilities	(26)	
Cash flow (absorption)from operations due to changes in working capital	*7,164*	**H**
Total (A) Cash flow from operations	**4,454**	
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(10,221)	**J**
Net investment in intangible assets	(291)	**K**
Net investment in financial assets	(245)	**I**
Total (B) Cash Flow /absorption) from investment activities	**(10,757)**	
C - FINANCING ACTIVITY		
Increase in capital		
Distribution of dividends		
Other changes in equity	(69)	**L**
(Purchase) Sale of treasury shares	-	**N**
Net change in loans	(2,085)	
Net change in intercompany loans	8,890	**M**
Total (C) Cash Flow (absorption) from financing activities	**6,736**	
Opening net cash (indebtedness)	**(9,063)**	
Net change in short-term net cash (indebtedness) (A+B+C)	433	
Closing net cash (indebtedness)	**(8,630)**	**(X)**

Financial cash flow
(thousands euro)

	12/31/2013	
Net financial position (debt) - beginning	**(84,511)**	
Net Result for the period	3,751	**A**
D & A	10,189	**B**
Non monetary changes	(16,650)	**C+D+E+F+G**
Internal operating Cash flow	**(2,710)**	
Changes in net working capital	7,164	**H**
Changes in Equity Investments	(245)	**I**
Net investments	(10,512)	**J+K**
Changes in intercompany loans	8,890	**M**
Changes in Equity	(69)	**L+N**
Net financial position (debt) - final	**(81,993)**	**(Z)**

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

FINANCIAL STATEMENTS

PANARIAGROUP Industrie Ceramiche S.p.A.

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

Rif	ASSETS	12/31/2013	* RESTATED 12/31/2012	* RESTATED 01/01/2012
	CURRENT ASSETS	**141,943,374**	**155,760,009**	**155,037,755**
1.a	Inventories	72,145,654	84,893,516	82,657,313
1.b	Trade Receivables	53,100,198	57,184,414	66,854,289
1.c	Due from tax authorities	3,450,517	5,809,272	1,496,565
1.d	Other current assets	4,389,007	4,551,896	2,959,960
1.e	Cash and cash equivalents	8,857,998	3,320,911	1,069,628
	NON-CURRENT ASSETS	**161,016,634**	**154,504,338**	**149,033,643**
2.a	Intangible assets	647,467	748,054	919,789
2.b	Property, plant and equipment	39,772,642	39,349,414	42,892,239
2.c	Financial assets	90,219,132	77,892,819	70,926,670
2.d	Deffered tax assets	10,205,677	7,637,705	7,589,438
2.e	Other non-current assets	20,171,716	28,876,346	26,705,507
	TOTAL ASSETS	**302,960,008**	**310,264,347**	**304,071,398**

Rif	LIABILITIES	12/31/2013	12/31/2012	01/01/2012
	CURRENT LIABILITIES	**94,757,758**	**91,571,098**	**110,046,612**
3.a	Due to banks and other sources of finance	42,659,294	29,086,724	44,752,191
3.b	Trade payables	32,907,062	41,583,465	43,143,997
3.c	Due to tax authorities	2,334,404	2,467,378	2,032,736
3.d	Other current liabilities	16,856,998	18,433,531	20,117,688
	NON-CURRENT LIABILITIES	**61,519,153**	**75,690,873**	**54,746,582**
4.a	Employee severance indemnities	6,020,928	6,294,334	6,527,890
4.b	Deferred tax liabilities	2,548,651	3,615,483	4,274,435
4.c	Provisions for risks and charges	3,435,760	5,064,185	2,578,623
4.d	Due to banks and other sources of finance	48,193,283	58,744,676	37,905,034
4.e	Other non-current liabilities	1,320,531	1,972,195	3,460,600
	TOTAL LIABILITIES	**156,276,911**	**167,261,971**	**164,793,194**
5	**EQUITY**	**146,683,097**	**143,002,376**	**139,278,204**
	Share capital	22,677,646	22,677,646	22,677,646
	Reserves	120,255,577	116,522,557	114,423,482
	Net profit for the year	3,749,874	3,802,173	2,177,076
	TOTAL LIABILITIES AND EQUITY	**302,960,008**	**310,264,347**	**304,071,398**

(*) It is noted that, as evidenced in the premises of Directors' Report and as underline in the subsequent explanatory notes, the retrospectively application of amendment to IAS 19 (Employee Benefits), has resulted the restatment at Jan 01, 2012 and at Dec 31, 2012, of employee severance indemnities, deferred tax liabilities and Equity.

(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)

PANARIAGROUP Industrie Ceramiche S.p.A.

INCOME STATEMENT

(THOUSANDS OF EURO)

Rif		12/31/2013		12/31/2012	
6.a	**REVENUES FROM SALES AND SERVICES**	**156,058,738**	**103.0%**	**165,181,756**	**92.3%**
	Change in inventories of finished products	(11,022,592)	-7.3%	1,001,856	0.6%
6.b	Other revenues	5,487,749	3.6%	4,495,968	2.5%
11.	Income from unexpected events	1,061,615	0.7%	8,315,472	4.6%
	VALUE OF PRODUCTION	**151,585,510**	**100.0%**	**178,995,052**	**100.0%**
7.a	Raw materials	(35,535,687)	-23.4%	(43,161,800)	-24.1%
7.b	Services, leases and rentals	(65,618,888)	-43.3%	(73,647,082)	-41.1%
	of whic, related party transactions	*(5,408,910)*	*-3.6%*	*(5,313,559)*	*-3.0%*
7.c	Personel costs	(43,765,871)	-28.9%	(44,597,084)	-24.9%
	Change in inventories of raw materials	(125,297)	-0.1%	522,032	0.3%
7.d	Other operating expenses	(1,831,799)	-1.2%	(1,507,523)	-0.8%
11.	Costs from unexpected events	(962,510)	-0.6%	(5,869,734)	-3.3%
	PRODUCTION COSTS	**(147,840,052)**	**-97.5%**	**(168,261,191)**	**-94.0%**
	GROSS OPERATING PROFIT	**3,745,458**	**2.5%**	**10,733,861**	**6.0%**
8.a	Amortisation and depreciation	(10,189,318)	-6.7%	(10,592,211)	-5.9%
8.b	Provisions and writedowns	(2,427,003)	-1.6%	(737,991)	-0.4%
11.	Provisions from unexpected events	–	0.0%	(2,500,000)	-1.4%
	NET OPERATING PROFIT	**(8,870,863)**	**-5.9%**	**(3,096,341)**	**-1.7%**
9.a	Financial income (expense)	9,543,802	6.3%	4,035,872	2.3%
	PRE-TAX PROFIT	**672,939**	**0.4%**	**939,531**	**0.5%**
10.a	Income taxes	3,076,935	2.0%	2,862,642	1.6%
	NET PROFIT	**3,749,874**	**2.5%**	**3,802,173**	**2.1%**
	BASIC AND DILUTED EARNING PER SHARE	**0.083**		**0.084**	

The % shown in the diagram refers to the incidence with respect to the value of production

(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)

STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	12/31/2013	* RESTATED 12/31/2012
NET PROFIT (LOSS) FOR THE PERIOD	**3,749,874**	**3,802,173**
Other components of comprehensive income that will be reclassified later to after-tax profit	**0**	**0**
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	**(69,153)**	**(706,000)**
Joint-Venture losses- Applying the Equity Method of accounting	(89,153)	0
(loss) Net Profit from revaluation of defined benefits and plans	20,000	(706,000)
COMPREHENSIVE INCOME FOR THE PERIOD	**3,680,721**	**3,096,173**

(*) Value of profit (loss) for the period 2012 is restated as of the retrospectively application of amendment to IAS 19

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

	31st December	
(in migliaia di euro)	**2013**	**2012**
A - OPERATIONS		
Net Results of the period	3,751	3,802
Ammortisation, depreciation and impairments	10,189	10,592
Deferred tax liabilities (assets)	(3,634)	(677)
Net change in Employee severance indemnities	(273)	(342)
Net change in provisions	(662)	3,173
Revaluation and write-down of the value of equity investments	(12,081)	(6,600)
Dividends by controlled company not yet paid	-	-
Cash flow (absorption) from operations prior to changes in working capital	*(2,710)*	*9,948*
(Increase)/(decrease) in trade receivables	4,098	8,283
(Increase)/(decrease) in inventories	11,768	(1,537)
(Increase)/(decrease) in trade payables	(8,676)	(1,561)
Net change in other assets/liabilities	(26)	(8,845)
Cash flow (absorption)from operations due to changes in working capital	*7,164*	*(3,660)*
Total (A) Cash flow from operations	**4,454**	**6,288**
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(10,221)	(6,571)
Net investment in intangible assets	(291)	(306)
Net investment in financial assets	(245)	(366)
Total (B) Cash Flow /absorption) from investment activities	**(10,757)**	**(7,243)**
C - FINANCING ACTIVITY		
Increase in capital		
Distribution of dividends		
Other changes in equity	(69)	
(Purchase) Sale of treasury shares		
Net change in loans	(2,085)	17,746
Net change in other financial assets/liabilities		
Net change in intercompany loans	8,890	(1,969)
Total (C) Cash Flow (absorption) from financing activities	**6,736**	**15,777**

Opening net cash (indebtedness)	**(9,063)**	**(23,885)**
Net change in short-term net cash (indebtedness) (A+B+C)	**433**	**14,822**
Closing net cash (indebtedness)	**(8,630)**	**(9,063)**
Supplementary information:		
Interest paid	1,417	1,950
Income taxes paid	784	117

The net cash (indebtness) position includes cash and cash equivalents, including bank deposits and overdrafts, but excluding the current portion of long-term loans and leases.

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PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

Statement of changes in equity from 1 January 2012 to 31 December 2013

(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 01.01.2012)*)	**22,678**	**60,784**	**4,493**	**3,472**	**45,988**	**2,177**	**139,592**
Balance as of 01.01.2012 restated (*)	**22,678**	**60,784**	**4,493**	**3,472**	**46,302**	**2,177**	**139,906**
Total gains (losses) booked directly to equity						3,802	3,802
Other comprehensive profit (loss) (**)					(706)		(706)
Total gains (losses) booked directly to equity					**(706)**	**3,802**	**3,096**
Allocation of net profit for year 2011				109	2,068	(2,177)	
Balance as of 12.31.2012	**22,678**	**60,784**	**4,493**	**3,581**	**47,664**	**3,802**	**143,002**
Saldi al 01.01.2013	**22,678**	**60,784**	**4,493**	**3,581**	**47,664**	**3,802**	**143,002**
Total gains (losses) booked directly to equity						3,750	3,750
Other comprehensive profit (loss)					(69)		(69)
Total gains (losses) booked directly to equity					**(69)**	**3,750**	**3,681**
Allocation of net profit for year 2012				190	3,612	(3,802)	
Balance as of 12.31.2013	**22,678**	**60,784**	**4,493**	**3,771**	**51,207**	**3,750**	**146,683**

(*) Balance as of Dec, 31 2013 is restated for the application of the retrospectively of amendment to IAS 19

(**) Value of profit (loss) for the period 2012 is restated as of the retrospectively application of amendment to IAS 19

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PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES

(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)

INTRODUCTION

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

The 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 2013 were drafted in compliance with the International Accounting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and approved by the European Union, and with the provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005. The term IFRS is understood as including all of the revised international accounting standards (“IAS”) and all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

The accounting principles and reporting formats used for preparing these consolidated 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 this regard, it should be noted, in particular, that the application of the amendment to IAS 19 “Employee benefits”, applicable for financial years starting on or after 1 January 2013, involved the restatement of the 2012 values relating to the items “Termination benefits” and “Provisions for deferred tax liabilities”, with the relative effects on equity and the result for the period. For more details on the aforementioned effects, please refer to the section “Accounting policies”.

The financial statements include:

- the balance sheet as at 31 December 2013, compared with the balance sheet as at 31 December 2012. In particular, the balance sheet has been drawn up in a declining liquidity format, as decided at the time of the transition to IFRS, with current and non-current assets and liabilities shown separately based on a 12-month operating cycle.

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

- the income statement for the year 2013, with comparative figures for the year 2012.

  Note that, as decided at the time of the transition to IFRS, the income statement shows the following intermediate results, even if they are not accepted by IFRS as a valid accounting measurement, 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 made during the period and provisions and impairment charges due to the effects of the earthquake;
  - *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.

  In order to clearly present the impact on the results of the earthquake that hit Emilia Romagna in May 2012, specific captions have been included in the income statement:

  - In the "Value of production" section a line has been added called "Income from extraordinary events" which encompasses the components of value of production pertaining to this event (insurance payouts and change in inventories of finished products), with the exception of the tax effects;
  - in the "Cost of production" section a line has been added called "Cost of extraordinary events" which encompasses the components of cost of production incurred as a consequence of the earthquake (restoration costs, change in inventories of raw materials and semi-finished products, etc.), gross of the tax effect;
  - in the "Provisions, write-downs and depreciation and amortisation" section a line has been added called "Provisions for extraordinary events" which has been used for the classification of expenses still to be incurred for the completion of restoration to their original state of buildings and plant damaged by the earthquake, gross of the tax effect.

  This approach has been taken in accordance with the requirements of paragraph 83 of "*IAS 1 Presentation of Financial Statements*": "*Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance"*.

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

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

- The statement of comprehensive income for 2013 with comparative figures for the year 2012, presented in accordance with the requirements of IAS 1 revised.

- the cash flow statement for 2013 and 2012. The indirect method has been used in drawing up the cash flow statement, which means that the profit or loss for the period has been adjusted for the effects of transactions of a non-monetary nature, for any deferral or provision for previous or future years' operating receipts or payments, and for any elements of revenue or cost related to the cash flows deriving from investment or financial activity;

- the statement of changes in equity from 01.01.12 to 31.12.13;

- 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 2013 is the euro.

1) ACCOUNTING PRINCIPLES

Accounting policies

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 particular, despite the difficult economic and financial conditions, the Company has determined that there are no uncertainties about business continuity, not least due to the action taken to adapt to the different level of demand, as well as to the industrial and financial flexibility of the Company.

The accounting policies used to prepare the consolidated financial statements for the year ended 31 December 2013 do not differ from those used to draft the consolidated financial statements for the year ended 31 December 2012, with the exception of the accounting standards, amendments and interpretations applicable from 1 January 2013.

In particular, the following amendments were made.

IAS 19 “Employee benefits”: the IASB issued numerous amendments to this standard which came into force for years starting on or after 1 January 2013. In addition to simple clarifications and terminology, the amendments to the standard set forth the obligation of recognising actuarial gains and losses in the statement of comprehensive income, eliminating the possibility of using the corridor method.
In line with the provisions of IAS 19, the new provisions are to be applied retroactively, by adjusting the opening values in the balance sheet as at 1 January 2012 and the income statement figures for 2012.

In these consolidated financial statements, the restatement of the values of previous periods in application of said amendment caused the following effects:
- as at 1 January 2012, a decrease in the Provision for Termination Benefits of Euro 436 thousand and an increase of Euro 120 thousand in the Deferred Tax Liabilities; this involved an increase of Euro 316 thousand in Group Equity;
- as at 31 December 2012, an increase in the Provision for Termination Benefits of Euro 541 thousand and a decrease of Euro 149 thousand in the Deferred Tax Liabilities; this involved a reduction of Euro 392 thousand in Group Equity;
- in terms of the 2012 statement of comprehensive income, a negative impact of Euro 706 thousand was recorded.

IAS 1 "Presentation of financial statements – Presentation of items of other comprehensive income". The amendment to said standard introduces the grouping of items presented in items of other comprehensive income. Items which could, in the future, be reclassified in the income statement, must now be presented separately from items that will never be reclassified. Said amendment did not involve any changes to the presentation methods of the Group consolidated statement of comprehensive income and had no impact on the Group's financial position or results.

IFRS 13 "Fair value measurement". This standard establishes a single IFRS guideline for all fair value measurements. The amendment does not change the cases in which fair value must be used, but instead provides a guide on how to measure fair value in line with IFRS, when the fair value application is required or permitted. IFRS 13 also requires specific information on fair value, part of which replaces the information requirements currently set out in other standards, including IFRS 7 Financial instruments: additional disclosures. Some of this information is specifically required by IAS 34.16A(j) for financial instruments and therefore has an effect on these consolidated financial statements.

The other standards applicable from 1 January 2013 include the following, which, however, did not apply to these consolidated financial statements.

- IFRS 10 "Consolidated financial statements" and IAS 27 "Separate financial statements (revised in 2011)". IFRS 10 replaces part of IAS 27 "Consolidated financial statements and Separate financial statements" and also includes the problems raised in SIC 12 "Consolidation – Special Purpose Entities". IFRS 10 establishes a single control model that applies to all companies, including Special Purpose Entities and will require discretional judgments to determine which ones are subsidiaries and which ones need to be consolidated by the parent company. Following the introduction of this new standard, IAS 27 remains limited to the accounting of subsidiaries, jointly controlled companies and associates in the separate financial statements and shall enter into force for years starting on or after 1 January 2013.
- IAS 28 "Investments in Associates and Joint Ventures (revised in 2011)". As a result of the new IFRS 11 and IFRS 12, said standard was renamed "Investments in associates and jointly controlled companies" and describes the application of the equity method for investments in jointly controlled companies, in addition to associates.
- IFRS 11 "Joint Arrangements" – said standard replaces IAS 31 "Interests in joint ventures" and SIC 13 "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 eliminates the option of accounting for jointly controlled entities by using the proportional consolidation method but establishes the use of the equity method.

•	IFRS 12 “Disclosure on interests in other entities” – this standard includes all the disclosure provisions previously included in IAS 27 relating to the consolidated financial statements, and all the disclosure provisions of IAS 31 and IAS 28 relating to an entity’s interests in subsidiaries, jointly controlled companies, associates and in structured vehicles and also makes provision for new disclosure cases. This standard has no impact on the Group's financial position or results.
•	IFRS 1 “Government Loans – Amendments to IFRS 1”. This amendment requires first-time adopters of IFRS to prospectively apply the provisions of IAS 20 “Accounting for government grants and disclosure of Government assistance" in relation to accounting for Government loans existing at the date of transition to IFRS.
•	IFRS 7 “Additional disclosure – Offsetting financial assets and liabilities”. These amendments require an entity to provide information on rights of set-off and the associated agreements. The disclosure will provide financial statement readers with useful information for evaluating the effect of netting agreements on the entity's financial position. The new disclosures are also required for financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off according to IAS 32. These amendments have no impact on the Group’s financial position or results.
•	IAS 32 “Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32”. The amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

We’ll also highlight some improvements to IFRS issued in May 2012, also effective for financial years starting on or after 1 January 2013:
•	IFRS 1 “First-time adoption of International Financial Reporting Standards” – this improvement clarifies that an entity that has stopped applying IFRS in the past or that decides, or is required, to apply IFRS, has the option of applying IFRS 1 again. If IFRS 1 is not re-applied, the entity must retrospectively restate its financial statements as if it had never stopped applying IFRS. These amendments is not applicable on the Group’s financial statements.
•	IAS 1 “Presentation of Financial Statements” – this improvement clarifies the difference between voluntary comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period. These amendments have no impact on the Group’s financial statements.
•	IAS 16 “Property, plant and equipment” – the improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. These amendments have no impact on the Group’s financial statements.
•	IAS 32 “Financial instruments: presentation” – this improvement clarifies that taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 “Income taxes”. These amendments have no impact on the Group’s financial statements.
•	IAS 34 “Interim Financial Reporting” – this improvement aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. The clarification also ensures that interim disclosures are aligned with annual disclosures. These amendments have no impact on the Group’s financial financial statements.

On 12 December 2013, the International Accounting Standards Board (IASB) issued two cycles of Annual Improvements to IFRSs – Cycles 2010-2012 and 2011-2013 - that contain changes of amendments as part of the annual improvement of the same, focusing on changes in assessed need, but not urgent.
The main changes that may be relevant for Group are refered to:

- IFRS 2 - Share-based Payments: contain changes to the definition of "vesting condition" and " market condition" and added further definitions of "performance condition" and "service condition", for the detection of benefit plans share-based.
- IFRS 3 - Business Combinations: changes clarify that contingent consideration classified as an asset or liability are to be measured at fair value at each balance sheet date, with effect reported in the income statement, regardless of the fact that the contingent consideration is a financial instrument or non- financial asset or liability . In addition, it is clarified that the principle in question is not applicable to all the operations of the establishment of a joint venture.
- IFRS 8 - Operating Segments: changes require to give information of the valuations made by management in applying the criteria of aggregation of operating segments, including a description of the aggregated operating segments and economic indicators considered in determining whether such operating segments are “similar”. In addition, the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.
- IFRS 13 - Measurement at fair value: changes to the Basis for Conclusions in order to clarify that with the release of IFRS 13, and consequential amendments to IAS 39 and IFRS 9, stay on the possibility to record account receivables and trade payables without detecting the effects of discounting, where such effects result not material.

The effective date of the proposed amendments is for annual periods beginning on or after 1 July 2014 or later date. These changes have not yet been endorsed by the European Union.

In relation to the information required by IFRS 8 (Aggregation of operating segments), please refer to the directors' report.

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.

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 Panariagroup'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 create 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 capitalised, the development costs are written off to 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 of their useful lives; in the absence of specific indications, for trademarks a useful life of 10 years is considered.

Property, plant and equipment

Property, plant and equipment are booked at historical cost, net of accumulated depreciation and any write-downs due to impairment. 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 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	4%
Plant and machinery	10% -15%
Industrial equipment	25%
Electronic office machines	20% - 25%
Furniture and showroom furnishings	10% - 15%
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 stated at historical cost.

Equity investments in jointly controlled entities

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 jointly controlled entities are accounted for under the equity method. As at 31 December 2013 Group held a joint venture company (JVC). This equity investment, was valued in the consolidated financial statements for the year ended 31 December 2013 according to the equity method, using the last set of approved financial statements of the investee company as a reference.

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 and intangible assets and financial assets for any signs that these assets may have suffered a loss in value. In order to verify whether the assets have suffered a loss in value, an estimate is made of the recoverable amount of these assets to determine the amount of any impairment. 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, net of selling costs, 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
reckoned to be lower that 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 smaller, 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 a loss in value 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 entering 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.

Trade receivables

Trade receivables 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 recognised 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. 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, 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 Company has a clear obligation as the result of a past event and it is probable that it 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.

During the current year, the Group applied IAS 19 retroactively in accordance with the transitory provisions set forth by the standard.

In addition to simple clarifications and terminology, the amendments to the standard set forth the obligation of recognising actuarial gains and losses in the statement of comprehensive income, eliminating the possibility of using the corridor method.

The effects on the consolidated balance sheet and income statement of the restatement of the values of previous periods were already outlined in previous sections.

Trade payables

Trade payables are booked at their face value.

Financial liabilities and equity instruments

The financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual agreements that generated them and according to the respective definitions of financial liabilities and equity instruments. The latter 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. The accounting principles used for specific financial liabilities and equity instruments are indicated below.

Equity instruments

The equity instruments issued by the Company are booked on the basis of the amount received, net of direct issue costs.

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

Sales of goods are recognised when the goods are shipped and the company has transferred the main risks and rewards of ownership to the customer.

Foreign currency transactions

Transactions in currencies other than the euro are initially booked at the exchange rates ruling 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 remeasurement at period-end exchange rates are booked to the income statement for the period, except for exchange differences on non-monetary assets expressed at fair value, for which changes in fair value are booked directly to equity, 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. 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

The Company values its inventories at the lower of cost and market (estimated realisable value), based on evaluations of market trends and making assumptions regarding the future realisability of the value of inventories. If effective market conditions turn out to be less favourable than those foreseen by the Company, the value of inventories may have to 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 Company evaluates the likelihood of receivables being collected based on the solvency of each debtor. The quality of these estimates depends on the availability of up-to-date information on debtors' solvency. If the solvency of debtors were to decline due to the difficult economic environment in certain markets where the Group operates, the value of trade receivables could be subject to additional write-downs.

Deferred tax assets

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

Contingent liabilities

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

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

As required by CONSOB Communication DEM/6064293 of 28 July 2006, any significant non-recurring events and transactions or atypical/unusual transactions have to be explained in the notes, disclosing their impact on the 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, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.

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.
The Company does not have any significant concentrations of credit risk.

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

c) Interest rate risk

Risks associated with changes in interest rates refer to loans. Floating-rate loans expose the 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 4.d “Due to banks and other sources of finance” for information regarding the maturities of financial liability contracts.

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. CURRENT ASSETS

1.a. Inventories

Inventories are analysed as follows at 31.12.13:

	31/12/2013	**31/12/2012**
Raw, ancillary and consumable materials	6,000	6,125

Work in progress	1,162	1,026
Finished products	69,624	80,952
Buildings held for sale	3,486	3,937
Provision for obsolescence	(8,126)	(7,146)
	72,146	**84,894**

The overall value of inventories recorded a net decrease (down Euro 12.8 million, equal to 15%) compared to 31.12.12. This decrease is a result of the Group's decision to optimise the level of net working capital, which materialised with the reduction in the level of production, together with major efforts to dispose of stocks.

Inventories of finished products are shown net of a provision for obsolescence of Euro 7,546 thousand at 31 December 2013 (Euro 6,646 thousand at 31.12.12), 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. The increase with respect to the previous year reflects a more careful evaluation by virtue of the persistence of critical market conditions in the main markets in which the Company operates.

Inventories include Euro 2,906 thousand of buildings held for sale (mainly apartments), net of an impairment charge of Euro 580 thousand, based on the estimated market value of the assets at the end of the year carried out by an independent professional.

1.b. Trade receivables

Trade receivables are made up as follows:

	31/12/2013	**31/12/2012**
Receivables due from third parties	47,903	51,237
Receivables due from subsidiaries	6,922	7,689
Receivables due from related parties	32	30
Due from parent companies	39	38
Provision for bad and doubtful accounts	(1,796)	(1,810)
	53,100	**57,184**

Trade receivables due from third parties at 31.12.13 have decreased, compared to the previous year, by around 6%, essentially in line with the drop in turnover.
Receivables due from subsidiaries 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 6.8% of the Company's total turnover.

The item “Receivables due from third parties” include around Euro 3.8 thousand in receivables overdue by more than 120 days (equal to roughly 6.9% of total receivables due from third parties); in respect of these, a provision for bad and doubtful accounts was set aside of Euro 1,796 thousand, in line with the previous year. The provision for bad and doubtful accounts reflects an estimate of the recoverable value of receivables, based on the information available at the time of preparing the financial statements.

The Company did not factor any of its receivables in the year ended 31 December 2013.

At 31 December 2013 a total of Euro 1.1 million in amounts due from customers were guaranteed by "preliminary agreements" for the sale of apartments (Euro 0.7 million at 31 December 2012).

1.c. Due from tax authorities

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

	31/12/2013	31/12/2012
VAT receivable	843	3,507
Income tax receivable	127	-
Other tax receivables	2,481	2,302
	3,451	**5,809**

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

The “Income tax receivable” at 31.12.13 relates to the excess of IRES and IRAP advances paid over the taxation actually due.

As from the 2008 tax return (for 2007 income), 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 Francesco S.r.l. and Panariagroup Immobiliare S.r.l..
The IRES income tax receivable or payable is thus a receivable from or payable to the parent company which, in its role as head of the tax group, handles all dealings with the tax authorities.

The item “Other tax receivables” refers to various refund requests presented in previous years relating to the deductibility of IRAP; in particular, the main ones are:

- Euro 0.3 million for tax credits on research and development activities
- Euro 0.3 million for IRES for which a refund was requested due to IRAP deductibility in the years 2004 – 2007 (Decree Law 185/2008 art.6)
- Euro 1.7 million for IRES for which a refund was requested due to IRAP deductibility in the years 2007 – 2011 (Decree Law 201/2011 art.2)

This balance does not include any items posing problems of collection.

1.d. Other current assets

This caption is made up as follows:

	31/12/2013	31/12/2012
Advances to social security institutions	205	789
Advances to suppliers	364	348
Rebates from suppliers and credit notes to be received	78	295
Receivables due from employees and third parties	579	640
Receivables due from insurance companies	-	1,924

Earthquake grants receivable	1,639	-
Other grants receivable	329	-
Receivables for Energy Efficiency Certificates	424	-
Receivables due from energy income	430	224
Other	11	25
Total other current receivables	**4,059**	**4,245**
Total current accrued income and prepaid expenses	**330**	**307**
	4,389	**4,552**

The line “Earthquake grants receivable” refers to the application presented to the Emilia Romagna Region in relation to damages suffered by buildings following the earthquake in May 2012 and not covered by insurance. The outcome of the preliminary investigation was positive, with the approval obtained in February 2014; the portion recorded as receivable is less than total value approved, as the amount due for works still to be performed was not recorded.

“Receivables due from insurance companies” as at 31 December 2012 related to the portion of the earthquake insurance payouts already collected at said date; at the end of 2013, the amount due was collected in full.

“Receivables for Energy Efficiency Certificates” relate to Certificates already credited at the close of the year to the intermediary that manages the procedure for the recognition of so-called “White Certificates” for the Group. At the balance sheet date, these receivables were collected in full.

"Other accrued income and prepaid expenses" mainly relate to miscellaneous costs (interest, trade fairs, promotions, commercial costs, maintenance and rentals) that refer to the next year.

1.e. Cash and cash equivalents

These are made up as follows:

	31/12/2013	31/12/2012
Bank and post office deposits	8,842	3,303
Cheques	-	-
Cash and equivalents on hand	16	18
	8,858	**3,321**

The changes in financial position during 2013, compared with 2012, are shown in the cash flow statement contained in the earlier section with the financial statements.

NON-CURRENT ASSETS

2.a Intangible assets

"Intangible assets" at 31 December 2013 amount to Euro 647 thousand, which is lower than the figure of Euro 748 thousand reported at 31 December 2012.

Changes during the year can be summarised as follows:

	2013	2012
Beginning balance	**748**	**920**
Additions	291	306
Retirements	-	-
Depreciation charge	(392)	(478)
Ending balance	**647**	**748**

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

2.b Property, plant and equipment

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

	31/12/2013	31/12/2012
Land and buildings	722	745
Plant and machinery	31,617	32,001
Equipment and other assets	6,245	6,556
Construction in progress	1,188	47
	39,772	**39,349**

Changes during the year can be summarised as follows:

	2013	2012
Beginning balance	**39,349**	**42,892**
Additions	10,538	6,920
Retirements	(318)	(49)
Retirements due to earthquake	-	(300)
Depreciation charge	(9,797)	(10,114)
Ending balance	**39,772**	**39,349**

The changes during the period are reported in an attachment.

The main investments in the year were as follows:

- capital expenditure of Euro 0.6 million for investments in the mixing department
- capital expenditure of Euro 0.4 million in the press lines department
- capital expenditure of Euro 0.6 million for investments in the glazing departments;
- capital expenditure of Euro 0.7 million for investments in the selection departments
- capital expenditure of Euro 2.4 million for investments in the cutting and rectification departments
- capital expenditure of Euro 1.2 million for investments in the “laminate matting” departments

- capital expenditure of Euro 1.4 million for investments in generic plant

Following the spin-off of the Company's property assets in 2004, the buildings in which the Company conducts its business are rented, being owned by Immobiliare Gemma S.p.A. (a related party).

Impairment Testing

As stated earlier in the section on Accounting Principles, at least once a year, even if there is no evidence of loss, but always whenever any critical indications of impairment arise, the Company performs impairment tests as required by IAS 36 in order to verify the recoverability of fixed assets recorded in Panariagroup's financial statements.
This testing was performed by comparing the book value of equity, at the date of the test, to the recoverable amount of Panariagroup determined as value in use (equity value).
Panariagroup's equity value was determined as the difference between the enterprise value (present value of cash flow generated by the Company) and the net financial indebtedness at 31.12.13.

The recoverable amount of each CGU was determined by applying the UDCF (“Unlevered Discounted Cash Flow”) model to the cash flows included in the 2014-2018 Business Plan approved by the Board of Directors of the Company on 13.03.14. A terminal value was calculated at the end of the explicit forecast period, by applying a perpetuity. For the determination of the cash flow on which the terminal value was based, use was made of operating income net of taxation (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, in testing equity investments and in line with testing performed in prior years.

The WACC discount rate of 7.8% is the same as that used in testing the consolidated financial statements and in testing individual equity investments.

The testing did not reveal any situations of impairment or any critical issues.
The Company also prepared a sensitivity analysis to verify the recoverability of equity, also in the event of a worsening of the WACC discount rate and EBITDA, but no critical issues were revealed.

2.c Financial assets

At 31.12.13, this caption comprises:

	31/12/2013	31/12/2012
Equity investments in subsidiaries	89,862	77,532
Investment in Indian JV	352	356
Other equity investments	5	5
	90,219	**77,893**

Equity investments in subsidiaries are made up as follows:

	31/12/2013	31/12/2012
Gres Panaria Portugal S.A.	42,597	42,597
Panariagroup USA	46,729	34,429
Montanari Francesco S.r.l.	496	496
Panariagroup Immobiliare	40	10
	89,862	**77,532**

At 31.12.13 the investment in Panariagroup USA had increased by Euro 12.3 million, due to the impact of the reversal of impairment recognised between 2008 and 2010 of Euro 19.5 million and partially restored in the last year (Euro 7.2 million). In particular, in light of the net improvement in the results achieved in the last few years, and which led to a hugely positive pre-tax result in 2012 and 2013, and the changed macroeconomic conditions and North American market prospects which recorded a gradual and net improvement compared to previous years, the Directors deemed that the impairment recorded in previous years is no longer valid; this conclusion was corroborated by the impairment tests carried out and commented on in detail below.

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

	Share capital K EUR / K USD	Value under Equity Method (1) K EUR	Net profit / Loss 2013 KEUR	% held	Book value K EUR
Gres Panaria Portugal S.A.	Euro 16,500	51,790	(2,069)	100 %	42,597
Panariagroup USA (2) (3)	65,500 USD	34,472	2,480	100 %	46,429
Montanari Francesco S.r.l.	Euro 48	519	66	100 %	496
Panariagroup Immobiliare S.r.l.	Euro 10	34	(5)	100 %	40

(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.

(3) The difference between the book value of the investment and the value under the equity method is due to exchange differences.

The following guarantees were obtained upon acquisition:

- in the case of Maronagres (now merged with Gres Panaria Portugal S.A.), any liabilities arising from events that took place prior to the acquisition are covered by the following guarantees given by the sellers to the Company:

- a bank guarantee, enforceable on first request, given by a leading Portuguese bank for Euro 500 thousand, with a duration of 7 years that expired on 21/10/2009;
- a personal guarantee given by the previous shareholders for Euro 800 thousand, with a duration of 7 years that expired on 21/10/2009.

Both the above guarantees were extended in 2009 to 31/12/2014.

- With reference to the acquisition of the quotas of Montanari Francesco S.r.l., it should be noted that the bank guarantee provided by the seller as security for the usual contractual warranties expired in 2012.

Panariagroup also participates in a Joint Venture Company (JVC) called “Asian Panaria” ad 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.

Impairment Testing

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

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

Value in use (equity value) was determined by subtracting from the enterprise value the net financial indebtedness of each individual company as at 31 December 2013. The enterprise value is derived from the present value of future cash flows expected to be generated by each equity investment, over the explicit forecast period and subsequent thereto (by means of the determination of a terminal value attributable thereto).

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 2014-2018 Business Plan approved by the Board of Directors of the Company on 14.03.14. A terminal value was calculated at the end of the explicit forecast period, by applying a perpetuity. For the determination of the cash flow on which the terminal value was based, use was made of operating income net of taxation (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 to calculate the perpetuity, in line with that used for testing of the consolidated financial statements and in line with testing performed in prior years, was prudently set at zero.

The discount rate used to discount expected cash flows was 7.8% (rate used in 2012 was 8.3%). 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; the expected rates of growth in the operating results foreseen in the past have been reconsidered in a more conservative way in light of the current uncertainties in the ceramics industry. To this end, it should be noted that the continuation of a situation of scarce dynamism in the trend of demand in the ceramic industry in the main European markets, which represent a significant portion of the Group's turnover, has led management to maintain conservative growth assumptions in line with trends defined by the most recent studies published by “Confindustria Ceramica” and by “Cresme”, without making any assumptions for any additional efficiency of the current productive 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.

From the testing performed, as previously indicated, the need arose for the full restoration of the value of the equity investment in Panariagroup USA.

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, an equity value has emerged from the above tests of Euro 59.5 million.

Panariagroup USA

On the basis of the above parameters, the equity value of Panariagroup USA at 31.12.13 is USD 91.8 million, compared with the carrying value of the investment prior to impairment testing of around USD 34.4 million. Based on the results in the financial statements for the year ended 31.12.13, the equity investment was completely revalued, for an amount of Euro 12.3 million, aligning the carrying amount to the results of the impairment test. In this regard, it should be noted that, in the previous year, the value of the equity investment was partially restored (Euro 7.2 million).

Over recent years, as a result the completion of the process of restructuring of the US Business Unit, and the net improvement in the macroeconomic conditions in the North American market, the consolidated income statement of Panariagroup USA was characterised by a significant reversal in the trend which led to the US subsidiary reaching a positive economic result.
Based on the plan approved for the years 2014-2018, prepared on a prudential basis (conservative growth assumptions linked to the most recent provisional studies published by “Confindustria Ceramica” and “Cresme”, and without making any assumptions for any additional efficiency of the current productive and organisational structure), the Company’s management decided to book to the financial statements a revaluation of the equity investment of Euro 12.3 million, hence fully writing back the value of the equity investment which had been written down in previous years.

Montanari Francesco S.r.l.

Against a total carrying value of the equity investment in Montanari Francesco S.r.l. of Euro 0.5 million, an equity value has emerged from the above tests of Euro 1.1 million.

Impairment - Sensitivity Analysis

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

Amounts in millions of Euro	***WACC used***	***WACC +0.5% (like 2012)***
Gres Panaria (*)	*59.5*	*55.5*
Panariagroup USA (**)	*122.0*	*113.3*
Montanari (*)	*1.0*	*0.9*

(*) 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 -5%***
Gres Panaria	*59.5*	*55.2*
Panariagroup USA (*)	*122.0*	*113.2*
Montanari	*1.0*	*0.9*

(*) Amounts in millions of USD

Upon a change to the main assumptions, according to the above tables, no impairment of equity investments would emerge.

2.d Deferred tax assets

The balance is as follows:

	31/12/2013	**31/12/2012**
Deferred tax assets:		
- taxed provisions	3,950	4,283
- tax losses	5,927	3,354
- for different exchange rates	227	-
- for ACE not deducted	102	-
Deferred tax assets	**10,206**	**7,637**

Deferred tax assets for “tax losses) refer to the 2012 and 2013 economic results, which recorded negative taxable income.

With respect to this tax loss, the business plans prepared and approved by Group management, show future results that will allow the recovery of the deferred tax assets recorded. The recoverability of the deferred tax assets is subject to the ability of the Company to produce, in the medium term, positive results that will allow the recovery of the deferred tax asset, in line with forecasts included in the business plans approved by directors on 14.03.14.

2.e Other non-current assets

	31/12/2013	31/12/2012
Intercompany loans receivable	19,645	28,534
Loans due from third parties	380	200
Other non-current assets	147	142
	20,172	**28,876**

“Intercompany loans receivable” consist of loans provided by the Company to the indirectly held subsidiary Florida Tile Inc of Euro 15,845 thousand, a loan to Gres Panaria Portugal S.A. of Euro 3,500 thousand, a loan to Montanari Francesco S.r.l. of Euro 200 thousand and a loan to Panariagroup Immobiliare S.r.l. of Euro 100 thousand.

All the loans provided are interest bearing at an interest rate determined on an arm's length basis.

"Loans due from third parties" includes a loan of Euro 360 thousand granted to a partner company belonging to the group of companies headed by Panariagroup as part of the project called "Industry 2015".
The deadline for the repayment of the loan is fixed for 2015.

“Other non-current assets” mainly relate to guarantee deposits for utilities.

4) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

CURRENT LIABILITIES

3.a Due to banks and other sources of finance

Short-term financial payables are made up as follows:

	31/12/2013	31/12/2012
Current account overdrafts	7,089	5,382
Export advances	10,400	7,002
Long-term loans	25,170	16,703
	42,659	**29,087**

The changes in financial position during 2013, compared with 2012, are shown in the cash flow statement contained in the earlier section with the financial statements.

The Company's total borrowing facilities granted by banks at 31.12.13 amounted to Euro 94.4 million, of which Euro 17.5 million had been drawn down at that date.

The item "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.

3.b Trade payables

The trend in trade payables is as follows:

	31/12/2013	31/12/2012
Due to third parties	31,868	40,118
Due to subsidiaries	1,039	1,465
Due to related parties	-	-
Due to parent companies	-	-
	32,907	**41,583**

Trade payables (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.

3.c Due to tax authorities

This caption comprises:

	31/12/2013	31/12/2012
Withholding tax	2,097	2,343
Income tax	237	124
Flat-rate taxes	-	-
	2,334	**2,467**

3.d Other current liabilities

At 31.12.13, this caption comprises:

	31/12/2013	31/12/2012
Due to social security institutions	2,257	2,989
Due to employees	4,053	3,911
Due to customers	3,592	3,864
Due to agents	5,526	6,667
Financial derivatives – negative fair value	127	222
Other	153	162
Total current payables	**15,708**	**17,815**
Deferred income from earthquake insurance payouts	1,015	485
Other accrued expenses and deferred income	134	134
Total current accrued expenses and deferred income	**1,149**	**619**
	16,857	**18,434**

"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.

NON-CURRENT LIABILITIES

4.a Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2013	31/12/2012
Employee severance indemnities	**6,021**	**6,294**

The principal technical bases used for the actuarial calculation in accordance with IAS 19 are as follows:

<u>Demographic assumptions</u>

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)

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:

31/12/2013: IBoxx Eurozone Corporate AA discount rate = 3.17 %
31/12/2012: IBoxx Eurozone Corporate AA discount rate = 3.20 %

The inflation rates taken into consideration reflect the consumer price indices for the households of blue and white collar workers published by ISTAT, as these indices are used to determine the revaluation of severance indemnities. They amount to 1.90 %, in line with the previous year.

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

Balance at 31.12.12	**6,294**
Charge to the income statement	194
Charge to “Other Comprehensive Income”	(20)
Portion paid out during the year	(447)
Employee severance indemnities at 31.12.13	**6,021**

On 16 June 2011, the IASB issued an amendment to IAS 19 - Employee Benefits, which eliminates the option to defer recognition of actuarial gains and losses with the corridor method, requiring the presentation in the balance sheet and statement of changes in financial position of the deficit or surplus in the fund, and recognition of the cost components related to work performance and the net financial expense in the income statement, as well as recognition of actuarial gains and losses arising from remeasurement of liabilities and assets under "Total other gains (losses)". The amendment was applied retrospectively from the year starting 1 January 2012; the effect of application of these changes was a reduction of Euro 392 thousand in equity, net of the related tax effects.

In particular, the balance as at 31.12.12 was redetermined as follows, with reference to the individual items of the balance sheet:

Caption	Balance from financial statements 31/12/2012	Balance at 31/12/2012 Restated	Difference
Deferred tax liabilities	3,764	3,615	(149)
Employee severance indemnities	5,753	6,294	541
Equity	143,394	143,002	(392)

4.b Deferred tax liabilities

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

	31/12/2013	31/12/2012
Deferred tax liabilities:		
- accelerated depreciation	127	127
- valuation of severance indemnities according to IFRS	86	98
- valuation of agents' termination indemnities according to IFRS	430	541
- valuation of inventories	1,906	2,605
- exchange differences on valuation	-	244
Deferred tax assets	**2,549**	**3,615**

4.c Provisions for risks and charges

Provisions for risks and charges are made up of:

	31/12/2013	31/12/2012
Provision for agents' termination indemnities	2,666	2,210
Provision for earthquake costs	-	2,200
Other provisions	770	654
	3,436	**5,064**

The liability for agents' termination indemnities has been discounted at the following rates, which reflect the average gross yields on 10-year Italian treasury bonds:

31 December 2012	5.59 %
31 December 2013	4.32%

The discount rates have 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 “Provision for earthquake costs” allocated in 2012 related to expenses for the restoration of buildings and facilities that were expected to be incurred in 2013. During the year, these costs were incurred, for which the provision was fully utilised.

During the year, Panariagroup Industrie Ceramiche S.p.A.’s position was settled in relation to a tax inspection in 2012; in relation to the irregularities identified, a provision for risks had already been set up last year, which was fully utilised in 2013 to cover the actual amount assessed, which was essentially in line with the amount forecast.

The main items that make up “Other provisions” are the “Provision for the risks of ongoing disputes", equal to Euro 365 thousand, and the "Provision for returns", amounting to Euro 205 thousand.

The Company's tax years from 2009 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.

Company does not have any outstanding disputes or litigation for which there may be remote contingent liabilities that ought to be mentioned in these notes.

4.d Due to banks and other sources of finance

Long-term financial payables are made up as follows:

	31/12/2013	31/12/2012
Long-term loans	41,382	54,484
Assisted loans	6,811	4,261
	48,193	**58,745**

"Long-term loans" relate to the portion beyond 12 months of medium-long term loans at floating rates tied to Euribor.

In 2012 a new mortgage loan was taken out of Euro 4 million as well as a medium term assisted loan of Euro 1.2 million granted as aid to entities hit by the earthquake for the payment of taxation and contributions that was temporarily suspended as from May 2012.

There are no guarantees in respect of these loans in the bank's favour.

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

	31/12/2013
2014	**25,170**
2015	23,418
2016	13,093
2017	7,422
2018	3,623
2019	313
2020	298
2021	26
Long-term	**48,193**
Financial payables	**73,363**

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

4.e Other non-current liabilities

At 31.12.13, this caption comprises:

	31/12/2013	31/12/2012
Due to suppliers beyond 12 months	995	1,972
Taxes beyond 12 months	325	-
	1,320	**1,972**

The amounts due to suppliers beyond 12 months relate mainly to the discounted value of purchase of plant and machinery in prior years on extended payment terms.

“Due to tax authorities beyond 12 months” refers to the division into instalments of taxes due following the tax inspection of Panariagroup Industrie Ceramiche S.p.A. and described above in the section “Provisions for risks and charges".

5 EQUITY

Equity consists of:

	31/12/2013	31/12/2012
Share capital	22,678	22,678
Share premium reserve	60,784	60,784
Revaluation reserves	4,493	4,493
Legal reserve	3,771	3,581
Other reserves	51,207	47,664
Net profit (loss) for the year	3,750	3,802
	146,683	**143,002**

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

The equity shown in the balance sheets at 31.12.12 and 31.12.13 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 with a par value of 0.50 euro each.

Share premium reserve

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

- Euro 5,069 thousand in relation to the share capital increase carried out in 2000 by 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 reserve amounting to Euro 4,493 thousand includes Euro 4,103 thousand for the revaluation of assets at 31 December 2000 under Law 342 of 21.11.2000 and Euro 390 thousand for revaluations carried out in application of previous laws. No deferred taxes have been provided on these reserves, which are subject to the 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 during the year thanks to the allocation of 5% from the 2012 net profit.

Other reserves

The other equity reserves are made up as follows:

	31/12/2013	31/12/2012
Extraordinary reserve	46,872	43,260
Payments on capital account	1,077	1,077
Retained earnings/losses and other reserves	3,258	3,327
	51,207	**47,664**

The *Extraordinary reserve* has increased with respect to the prior year following the allocation of part of 2012 net profit.

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

"Retained earnings and other reserves" include 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 deduction from equity, in accordance with relevant accounting standards.
At 31.12.13 there are 432,234 treasury shares held in portfolio at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of 2012.

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 26.04.05. This resolution was then renewed at the Shareholders' Meetings that approved subsequent years' financial statements.

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

		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%	3,771,379.20	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	46,872,408.51	A B C	46,872,408.51		
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	27,441.97	B	0.00		
RETAINED EARNINGS	9,073.80	A B C	9,073.80		
NET PROFIT (LOSS)	3,749,874.00	A B C	3,749,874.00		
Reserve not available****			62,728,592.28		
Residual amount available for distribution			57,478,038.42		

* 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.

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as of 31.12.13:

- an interest rate swap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on loans obtained in 2006;
- a cap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on outstanding loans obtained during 2010;
- a cap with a notional underlying principal of Euro 7,000 thousand to hedge interest rates on outstanding loans obtained during 2010.
- an interest rate swap with a notional underlying principal of Euro 3,250 thousand to hedge interest rates on outstanding loans obtained during 2012.
- an interest rate swap with a notional underlying principal of Euro 7,500 thousand to hedge interest rates on outstanding loans obtained during 2012.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 127 thousand. Adjusting these instruments to fair value at 31.12.13 involved booking income of Euro 95 thousand to the income statement for the period.

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

GUARANTEES

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

The Company has provided guarantees on behalf of the indirectly controlled company Florida Tile Inc., being USD 5 million of bank guarantees granted by a bank to the US company and USD 1.5 million to a Kentucky governmental authority for the conduct of production activities at the plant in Lawrenceburg, KY.

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a Revenues from sales and services

Sales revenues are analysed by geographical area below:

	31/12/2013	31/12/2012	Change
Italy	65,230	68,967	(3,737)
EU countries	49,160	55,851	(6,691)
Non-EU countries	32,778	32,323	455
Intercompany	10,743	10,439	304
(Less) Rebates	(1,852)	(2,398)	546
Total revenues	**156,059**	**165,182**	**(9,123)**

Panariagroup Industrie Ceramiche S.p.A. recorded a fall in total revenues of roughly 5.5% (Euro 9.1 million).

More details can be found in the directors' report.

6.b Other revenues

"Other revenues" are made up as follows:

	31/12/2013	31/12/2012	Change
Expense recoveries (displays, transport)	992	1,564	(572)
Gains on the sale of property	316	22	294
Out-of-period income	758	728	30
Intercompany services	663	771	(108)
Compensation for damages	76	19	57
Capitalisation of own work	367	173	194
Energy income	1,742	791	951
Grants	421	49	372
Other	153	378	(225)
Other revenues	**5,488**	**4,495**	**993**

"Expense recoveries" include transport and sample costs recharged to customers.

"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.

Grants relate to the current portion of contributions received for research and development of an industrial nature.

“Capitalisation of own work” relates primarily to the use of self-produced photovoltaic tiles as part of an internal project to improve the energy efficiency of one of the Group's plants.

7. COST OF PRODUCTION

7.a Raw materials

"Raw materials" are made up as follows:

	31/12/2013	31/12/2012
Raw materials	15,206	18,599
Ancillary and consumable materials	7,000	7,178
Finished and semi-finished products and goods for resale	6,276	9,772
Packaging	6,342	6,794
Other	712	819
Raw materials	**35,536**	**43,162**

The significant decrease in "raw materials" (for Euro 7.6 million) is related to the reduction in sq.m produced, as already described in Directors’ Report.

7.b Services, leases and rentals

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

	31/12/2013	31/12/2012
Property rental	5,555	5,536
Rentals of plant, vehicles, computers	2,156	1,903
Commissions	11,021	12,572
Utilities	16,280	18,491
Commercial expenses and advertising	4,360	4,638
Sub-contract work	7,258	10,225
Maintenance	3,233	3,687
Transportation	4,351	4,795
Industrial services	4,353	4,333
Directors' and statutory auditors' fees	1,105	1,183
Consulting fees	1,770	2,153
Insurance	477	433
Other	3,700	3,698
Services, leases and rentals	**65,619**	**73,647**

"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 fell from Euro 44,597 thousand as at 31.12.12 to Euro 43,765 thousand as at 31.12.13, marking a decrease of 1.9%. As a percentage of value of production, they have increased from 24.9% to 28.9%.

Personnel costs can be broken down as follows:

	31/12/2013	31/12/2012
Wages and salaries	30,843	31,440
Social security contributions	10,659	10,952
Severance indemnities	2,263	2,205
	43,765	**44,597**

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

	31/12/2013	31/12/2012
Managers	32	32
Supervisors	36	36
White collar	232	235
Foremen	24	24
Blue collar	498	501
	822	**828**

7.d Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2013	31/12/2012
Out-of-period expenses	195	184
Gifts	25	45
Contributions to trade associations	97	83
Losses on disposals	163	28
Indirect taxes	886	675
Office materials	195	224
Other	271	269
	1,832	**1,508**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a Depreciation and amortisation

The charge for depreciation and amortisation for the year ended 31.12.13 is down slightly on prior year from Euro 10,592 thousand to Euro 10,189 thousand.

8.b Provisions and impairments

In consideration of the still critical economic environment, more prudential valuations were carried out compared to previous years when determining the realisable values of the inventory and of provisions for risks and charges; this resulted in a significant level of provisions.

In particular, the caption "Provisions and impairments" amounting to Euro 2,427 thousand includes the write-down of inventories of Euro 980 thousand, write-downs of receivables totalling Euro 456 thousand, provisions made for agents' termination indemnities of Euro 321 thousand, and other write-downs of Euro 670 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a Financial income (expense)

	31/12/2013	31/12/2012
Bank interest expense	(273)	(320)
Interest expense on medium/long-term loans	(1,144)	(1,630)
Financial expense on severance indemnity liability	(194)	(255)
Fair value losses on derivatives	-	(82)
Other	(182)	(247)
Total financial expense	**(1,793)**	**(2,534)**
Bank interest income	35	8
Interest on receivables	102	82
Fair value gains on derivatives	95	-
Interest receivable on intercompany loans	553	546
Total financial income	**785**	**636**
TOTAL FINANCIAL INCOME AND EXPENSE	**(1,008)**	**(1,898)**
Exchange losses	(2,215)	(2,626)
Exchange gains	1,040	1,965
TOTAL EXCHANGE GAINS AND LOSSES	**(1,175)**	**(661)**
Write-backs on equity investments in subsidiaries	12,300	7,200
Impairment losses on equity investments in subsidiaries	-	(600)
Impairment of JV equity investments (Equity Method)	(219)	-
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	**12,081**	**6,600**
Financial losses on discounting	(354)	(5)
Financial gains on discounting	-	-
DISCOUNTING GAINS (LOSSES)	**(354)**	**(5)**
Total financial income (expense)	**9,544**	**4,036**

Financial income and expense - Sensitivity analysis

As previously stated in the section on “Financial risk”, 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 2013 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	(Higher) (Lower) Profits € million
- 1.00%	-0.9
- 0.50%	-0.5
+ 0.50%	+0.5
+ 1.00%	+0.9
+ 2.00%	+1.8

Exchange rates (Eur/USD)

Rate	Higher (Lower) Profits € million
1.20	+6.4
1.30	+1.7
1.40	-2.5
1.50	-6.2

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a Income taxes

Income taxes for the financial year have generated an amount of income of Euro 3,077 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	673
B	Personnel costs	43,766
C	Net finance costs (net of write-downs and revaluations of investments)	2,756
D	IRAP deduction from tax wedge	16,535

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRES purpose	673	185	**27.50%**
A+B+C-D	Theoretical taxable income for IRAP purpose	30,660	1,196	**3.90%**
CF1	Theoretical Tax Charge		**1,382**	**205.32%**
	No taxation of earthquake grants		**(349)**	**-51.79%**
	IRAP deductibility personnel costs		**(448)**	**-66.53%**
	Tax neutrality of restored investments in Pan USA		**(3,862)**	**-573.88%**
	Other		**200**	**29.67%**
	ACTUAL tax charge		**(3,077)**	**-457.21%**

The “positive” balance of taxes is determined mainly by the obtainment of a negative pre-tax result.

6. IMPACT OF THE EARTHQUAKE ON RESULTS

In May last year, Emilia Romagna (and particularly the province of Modena) was hit by a severely intense earthquake that caused significant damages to the municipality of Finale Emilia, the location of one of the Group's production facilities, as well as commercial and administrative offices.

As reported previously, in order to clearly present, in the financial statements, the impact on the results of the earthquake that hit Emilia Romagna, some specific captions have been added to the income statement, in compliance with "IAS 1 Presentation of the Financial Statements paragraph 83: "*Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance*".

The rows that were added to the income statement are as follows:

	31/12/2013	31/12/2012
Income from extraordinary events	1,061	8,315
Cost of extraordinary events	(962)	(5,871)
Provision for extraordinary events	-	(2,500)
	99	**(56)**

As outlined in the previous table, the economic effects of the earthquake were not only present in 2012, but also continued into 2013.

"Income from extraordinary events" in 2012 relates to the positive impact of income from insurance payouts net of the negative impact of goods damaged by the earthquake.

"Income from extraordinary events" in 2013 refers to the portion of the government grant recognised for the costs of restoring buildings, which, therefore were charged to the income statement. A request was presented in November 2013 relating to damages suffered by buildings, which was positively accepted.

Portions of the insurance payouts and government grants related to capitalised operations (improvements with respect to the pre-earthquake situation), were deferred, in order to match the income to the useful lives of the relates assets.

"Cost of extraordinary events" in 2012 relates to the works carried out in said year for the resumption of operations at the plant in Finale Emilia; these included demolition, restoration and safety measures at the site carried out using both internal personnel and external suppliers. This also includes costs related to inventories of materials other than finished products (raw materials, semi-finished products and consumables) that were destroyed by the earthquake.

"Cost of extraordinary events" in 2013 refers primarily to the costs of restoration of the office block in Finale Emilia, whose reconstruction is in progress as at 31.12.13.

The "Provision for extraordinary events" in 2012 of Euro 2.5 million consists of an estimate of the expected costs, based on the programme for completion of the works, for the restoration of the entire Finale Emilia site to the condition it was in prior to the earthquake and mainly relates to the cost of reconstruction of the office block.

The estimated costs to complete do not include improvements that are necessary to adapt the facilities, equipment and machinery to the new anti-seismic parameters introduced for the area and which are to be capitalised.

It should be noted that the quantification of the impact on the results of the earthquake, outlined in specific lines, does not take account of the “indirect” costs relating to the earthquake, such as the loss of sales and production.

The tax effect of these net charges is recorded in the income statement under "Income taxes" and relates to the deductibility of the expenses already incurred. No tax effect was recognised on the portion of the insurance payout and government grants recorded in the financial statements, in consideration of their tax exemption in accordance with legislation issued to aid those affected by the earthquake.

Lastly, it should be noted that, at the end of December 2013, the Group applied for a government grant under Regional Decree E-R no. 57 of 12/10/2012 to aid those who have sustained damages from the earthquake with expenses not covered by an insurance policy, also in relation to damages suffered by plants and for the so-called relocation costs. The possible grant due was not booked to the financial statements pending approval from the competent bodies.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share of € 0.083 are disclosed at the foot of the income statement (€ 0.084 per share for the year ended 31.12.12).

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.

As already mentioned in the Introduction, the impact on results of the earthquake that struck Emilia Romagna in May 2012 (gross of the related tax effect) has been recorded in specific income statement captions, for a better understanding of the Company's results in accordance with the requirements of "*IAS 1 Presentation of Financial Statements*".

POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

No events/transactions were recorded during the year ended 31 December 2012 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 INFORMATION

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

In terms of their economic and financial characteristics, the products distributed by the Company 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 analysis 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 on operations.

RELATED PARTY TRANSACTIONS

Panariagroup's related parties are:

Finpanaria S.p.A.– Ultimate Parent Company, which does not exercise the management and the coordination.
Immobiliare Gemma S.p.A. – an affiliated company (also controlled by Finpanaria)

INCOME STATEMENT

(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Rental income	4	-	4
Services	32	26	58
Total revenues	36	26	62

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,409	5,409
Commission for guarantees given	28	-	28
Total costs	28	5,409	5,438

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.
The consulting fees paid to Finpanaria S.p.A. are for administrative and organisational services.

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 total revenues**	**% of pre-tax profit**	**% of operating cash flow***
Revenues	0.1%	0.1%	9.2%	2.1%
Costs	3.6%	3.5%	867.3%	200.7%

* before changes in working capital

BALANCE SHEET

(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	39	32	71
Payables	-	-	-
Due from (to) tax authorities	1,783	-	1,783
Net receivable (payable)	1,822	32	1,854

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 are also:

Gres Panaria Portugal S.A
Panariagroup USA Inc.
Lea North America LLC.
Florida Tile Inc.
Montanari Francesco S.r.l.
Panariagroup Immobiliare S.r.l.

For transactions between Company and its subsidiaries, refer to the section “Transaction with subsidiaries” reported in 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 01.01.13 to 31.12.13
- Statement of changes in property, plant and equipment from 01.01.13 to 31.12.13
- Statement of changes in financial assets
- Statement of changes in financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations
- Certification of the financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Finale Emilia, 14.03.14

The Chairman of the Board of Directors

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)

	Land and buildings	Plant and Machinery	Equipment	Other Assets	TOTAL
Tipologie di rivalutazione	**Revaluation**	**Revaluation**	**Revaluation**	**Revaluation**	**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
Closing Balance	**-**	**5,501**	**36**	**376**	**5,913**

As of December 31, 2013 revaluations made in previous years have been fully depreciated

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in intangible assets from 01.01.12 to 31.12.13

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Statement of changes in intangible assets from 01/01/2013 to 12/31/2013
(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	TOTAL
Balance at 1/1/2012	**0**	**0**	**0**	**920**	**0**	**920**
Increases	-	-	-	306	-	306
Reclassifications	-	-	-	-	-	0
Decreases	-	-	-	-	-	0
Ammortisation	-	-	-	(478)	-	(478)
Balance at 12/31/2012	**0**	**0**	**0**	**748**	**0**	**748**
Increases	-	-	-	291	-	291
Reclassifications	-	-	-	-	-	0
Decreases	-	-	-	-	-	0
Ammortisation	-	-	-	(392)	-	(392)
Balance at 12/31/2013	**0**	**0**	**0**	**647**	**0**	**647**

EXPLANATORY NOTES - ATTACHMENT 3

- <u>Statement of changes in property, plant and equipment from 01.01.12 to 31.12.13</u>

Statement of changes in property, plant and equipment from 01/01/2012 to 12/31/2013

(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	TOTALI
Balance at 1/1/2012	**768**	**35,200**	**4,682**	**1,874**	**47**	**42,571**
Increases	-	5,377	763	826	1,188	**8,154**
Amortisation	(23)	(8,227)	(941)	(923)		**(10,114)**
Decreases for earthquake		(300)				**(300)**
Net decreases	-	(49)			(47)	**(96)**
Reclassifications	-					**-**
Balance at 12/31/2012	**745**	**32,001**	**4,682**	**1,874**	**47**	**39,349**
Increases	-	7,761	763	826	1,188	**10,538**
Amortisation	(23)	(7,874)	(1,086)	(814)		**(9,797)**
Net decreases	-	(271)			(47)	**(318)**
Reclassifications	-					**-**
Balance at 12/31/2013	**722**	**31,617**	**4,359**	**1,886**	**1,188**	**39,772**

EXPLANATORY NOTES - ATTACHMENT 4

- Statement of changes in financial assets from 01.01.12 to 31.12.13

Statement of changes in financial assets from 01/01/2013 to 12/31/2013
(in thousand of Euro)

	Investments in subsidiaries	Investments in affiliated companies	Investments in parent companies	Investments in other companies	TOTAL
Balance at 1/1/2012	**70,922**	**-**	**-**	**5**	**70,927**
Increases	10	-	-	356	**366**
In share capital	-	-	-	-	**-**
Write-down of investments	(600)	-	-	-	**(600)**
Revaluation of Investments	7,200	-	-	-	**7,200**
Other	-	-	-	-	**-**
Balance at 12/31/2012	**77,532**	**-**	**-**	**361**	**77,893**
Increases	-	-	-	-	**-**
In share capital	30	-	-	215	**245**
Write-down of investments	-	-	-	(219)	**(219)**
Revaluation of Investments	12,300	-	-	-	**12,300**
Other	-	-	-	-	**-**
Balance at 12/31/2013	**89,862**	**-**	**-**	**357**	**90,219**

EXPLANATORY NOTES - ATTACHMENT 5

- Statement of changes in financial position

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

PANARIAGROUP
FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

		31/12/2013	31/12/2012
A	Cash	(16)	(18)
B	Other Cash and cash equivalents	(8,842)	(3,303)
C	Securities held for sale	0	0
D	**Liquidità (A+B+C)**	**(8,858)**	**(3,321)**
E	**Short-term financial assets**	**0**	**0**
F	Due to banks	17,489	12,384
G	Current portion of long-term loans	25,170	16,703
H	Other short-term financial debt	0	0
I	**Short-term financial indebtedness (F+G+H)**	**42,659**	**29,087**
J	**Net short-term financial indebtness**	**33,801**	**25,766**
K	**Long-term financial assets**	**0**	**0**
L	Non-current portion of long-term loans	48,193	58,745
M	Due to bondholders	0	0
N	Other long-term financial debt	0	0
O	**Long-term financial indebtedness (L+M+N)**	**48,193**	**58,745**
P	**Net long-term financial indebtness (O-K)**	**48,193**	**58,745**
	Net financial indebtness (J+P)	**81,994**	**84,511**
D+F	**Net short-term financial indebtedness**	**8,631**	**9,063**

Net short-term indebtedness includes cash and cash equivalents net of short-terms payables to banks, excluding the current portion of long-terms loans and leases, as already mentioned in the statement of cash flows.

EXPLANATORY NOTES - ATTACHMENT 6

- Directors and Officers

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

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
Giuliano Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giovanna Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Andrea Mussini	Managing Director	Ordinary administration of the Fiordo Division
Giuseppe Mussini	Managing Director	Ordinary administration of the Panaria Division
Paolo Mussini	Managing Director	Ordinary administration of the Cotto d'Este Division
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup S.p.A.
Marco Mussini	Director	Chairman of Gres Panaria Portugal
Enrico Palandri	Director	Independent non-executive
Alessandro Iori	Director	Independent non-executive
Paolo Onofri	Director	Independent non-executive

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

The board of Directors'term in office expires at the AGM that approves the 2013 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
Francesca Muserra	Chairman of the Board of Statutory Auditors
Giovanni Ascari	Standing Auditor
Vittorio Pincelli	Standing Auditor
Massimiliano Stradi	Alternate Auditor
Arianna Giglioli	Alternate Auditor

Compensation Commitee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Internal Control Commitee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

Reconta Ernst & Young S.p.A.

EXPLANATORY NOTES - ATTACHMENT 7

- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations

This table, prepared in accordance with article 149-duodecies of the CONSOB Issuer Regulations, reports the fees earned in 2009 for auditing and other services provided by the independent auditors.

Type of services	Party providing the services	Recipient	Fees earned in 2013
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	55
Auditing	Reconta Ernst & Young	Panariagroup S.p.A.	26
Totale			**81**

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

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

of the administrative and accounting procedures for the formation of the financial statements during the period ended 31.12.13.

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

Finale Emilia, 14.03.14

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

PANARIAGROUP

Financial Statement of the companies extra-UE controlled by Panariagroup

PANARIAGROUP USA

CONSOLIDATED BALANCE SHEET

(THOUSANDS OF DOLLARS)

ASSETS	31/12/2013	31/12/2012
CURRENT ASSETS	**63,369**	**63,967**
Inventories	46,658	45,690
Trade Receivables	14,165	15,050
Due from tax authorities	0,157	0,049
Other current assets	1,136	1,691
Cash and cash equivalents	1,253	1,487
NON-CURRENT ASSETS	**49,139**	**52,225**
Goodwill	0,000	0,000
Intangible assets	1,770	1,892
Property, plant and equipment	26,305	26,983
Financial assets	11,921	12,767
Deferred tax assets	8,588	10,481
Other non-current assets	0,555	0,102
TOTAL ASSETS	**112,508**	**116,192**

LIABILITIES	31/12/2013	31/12/2012
CURRENT LIABILITIES	**22,231**	**22,901**
Due to banks and other sources of finance	1,668	0,847
Trade payables	17,804	19,645
Due to tax authorities	0,389	0,296
Other current liabilities	2,370	2,113
NON-CURRENT LIABILITIES	**42,665**	**48,976**
Employee severance indemnities	-	-
Deferred tax liabilities	-	-
Provisions for risks and charges	0,100	0,250
Due to banks and other sources of finance	41,730	47,930
Other non-current liabilities	0,835	0,796
TOTAL LIABILITIES	**64,896**	**71,877**
EQUITY	**47,612**	**44,315**
Share capital	63,020	63,020
Capital Reserves	(18,703)	(31,394)
Net Profit	3,295	12,689
TOTAL LIABILITIES AND EQUITY	**112,508**	**116,192**

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31/12/2013		31/12/2012	
REVENUES FROM SALES AND SERVICES	**116,732**	**96,1%**	**105,398**	**94,6%**
Change in inventories of finished products	0,909	0,7%	2,288	2,1%
Other revenues	3,770	3,1%	3,678	3,3%
VALUE OF PRODUCTION	**121,411**	**100,0%**	**111,364**	**100,0%**
Raw materials	(50,596)	-41,7%	(46,715)	-41,9%
Services, leases and rentals	(34,500)	-28,4%	(32,199)	-28,9%
Personnel costs	(23,071)	-19,0%	(22,050)	-19,8%
Other operating expenses	(1,382)	-1,1%	(1,653)	-1,5%
PRODUCTION COSTS	**(109,549)**	**-90,2%**	**(102,617)**	**-92,1%**
GROSS OPERATING PROFIT	**11,862**	**9,8%**	**8,747**	**7,9%**
Amortisation and depreciation	(4,559)	-3,8%	(4,254)	-3,8%
Provisions and writedowns	(0,193)	-0,2%	(0,076)	-0,1%
NET OPERATING PROFIT	**7,110**	**5,9%**	**4,417**	**4,0%**
Financial income (expense)	(1,660)	-1,4%	(1,054)	-0,9%
PRE-TAX PROFIT	**5,450**	**4,5%**	**3,363**	**3,0%**
Income taxes	(2,155)	-1,8%	9,326	8,4%
NET PROFIT	**3,295**	**2,7%**	**12,689**	**11,4%**