

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

Registered office at Finale Emilia (MO), - Via Panaria Bassa 22/A

Share Capital Euro 22,677,645.50 fully paid up

Number of registration with the Register of Companies of Modena: 01865640369

Website www.panariagroup.it

Directors' report pursuant to Article 125-ter of Italian Legislative Decree no. 58 of 24 February, 1998, n. 58 ("TUF" or Italian Consolidated Finance Act) and 84-ter of the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999 ("Issuers Regulation").

Dear shareholders,

this report explains the proposals that the Board of Directors of Panariagroup S.p.A. (hereinafter "**Panariagroup**" or the "**Company**") intends to submit for your approval in relation to items on the agenda for the Meeting to be held on 28 April 2017 (single call).

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Item 1 on the agenda –*Presentation of the consolidated financial statements of group Panariagroup and approval of the financial statements as at 31 December 2016; related and subsequent resolutions.*

Dear shareholders,

the Board of Directors of your Company has convened an ordinary general meeting to propose the approval of the Company's financial statements as at 31 December, 2016 and the presentation of the consolidated financial statements as at 31 December, 2016.

The Company's draft financial statements as at 31 December 2016 have been approved by the Board of Directors on 17 March, 2017.

It is noted that the management report will be made available to the public, together with the draft financial statements of Panariagroup as at 31 December 2016, the consolidated financial statements of Panariagroup as at 31 December 2016, the statement by the manager responsible for drafting up the Company's accounting documents, the report of the Board of Statutory Auditors and the report of independent auditors, at the registered office and Borsa Italiana S.p.A., on the Company's *website* at www.panariagroup.it, as well as on the authorised 1Info storage mechanism www.1info.it under the terms of the law and in any case within 31 March 2017.

For comprehensive information on the subject matter, please refer to the report of the Board of Directors on the company's performance and further documentation that will be made available to the public, as provided by law, at the registered office and at Borsa Italiana SpA, and on internet site www.panariagroup.it under Investor Relations, as well as on the authorised 1info.it storage mechanism at www.1info.it.

As noted above, only the financial statements will be submitted for approval, pursuant to Article 2364, paragraph 1, number 1) of the Italian Civil Code, while the consolidated financial statements will be brought to the attention of the Shareholders without being subject to approval by the Meeting.

Referring also to the Board of Directors' report on performance, we invite you to approve the following resolution:

"The Ordinary Shareholders' Meeting,

- *having examined the Company's financial statements as at 31 December 2016 and the Board of Directors' report on performance;*
- *in view of the Board of Statutory Auditors' Report pursuant to Art. 153 of Italian Legislative Decree 58/1998;*
- *in view of the report of the Auditing Firm concerning the draft financial statements as at 31 December 2016;*

resolves

to approve the Company's financial statements as at 31 December 2016 in addition to the Directors' report on performance and to allocate the profit for the year as follows:

- *5% of the net profit to the legal reserve;*
- *Payment of a dividend of Euro 0.07 per share, before tax withholdings, excluding treasury shares held at the date the dividends are paid;*
- *the remainder to the Extraordinary Reserve.*

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Point 2 of the agenda - *Resolutions related to the remuneration report; related and consequent resolutions.*

Dear shareholders,

in relation to item 2 on the agenda, the Board of Directors intends to submit to the Shareholders' Meeting the report on the remuneration of members of the governing bodies, general managers and other key managers, in accordance with Articles 123 -ter of the TUF and 84-quater of the Issuers' Regulations and Article 6 of the Corporate Governance Code in the 2015 July version (the "**Remuneration Report**").

The Remuneration Report has been drafted in accordance with Annex 3A, Scheme 7-bis of the Issuers Regulations and consists of two sections. The first section of the Remuneration Report explains (i) the Company's policy regarding the remuneration of members of governing bodies, general managers and managers with strategic responsibilities with reference to at least the following year and (ii) the procedures used for the adoption and implementation of this policy. The second section of the Remuneration Report: (i) provides an adequate representation of each of the items comprising the remuneration, including the treatment provided in the event of termination of office or termination of employment, highlighting the consistency with the Company's policy on remuneration approved in the previous year; (ii) analytically explains the compensation paid during the period. Finally, the Remuneration Report includes any shareholdings held by the persons referred to above.

Pursuant to Article 123-ter, paragraph 6, of the TUF, the Shareholders' Meeting is required to express, the approval, in favour or against and non-binding on the first section of the Remuneration Report.

In this regard, please refer to the explanations in the report drafted pursuant to articles 123-ter of the TUF and 84-quater of the Issuers' Regulations and Article 6 of the Corporate Governance Code, which will be filed in the terms required by law at the registered office, Borsa Italiana S.p.A., on the Company's internet site www.panariagroup.it, as well as the authorised 1Info storage mechanism www.1info.it.

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Item 3 on the agenda – *Determination of the number and appointment of members of the Board of Directors for the 2017-2019 three-year period; determination of their compensation; related and subsequent resolutions.*

Dear shareholders,

with reference to item 3 on the agenda, the Board notes that with the approval of the annual financial report as at 31 December 2016, the Board of Directors of Panariagroup Industrie Ceramiche SpA, appointed by the Meeting of 23 April 2014, is falling from office due to having completed its mandate.

The current members of the Board of Directors are: Emilio Mussini (Chairman of the Board of Directors and CEO), Giuliano Mussini (Vice-Chairman and Managing Director), Silvia Mussini (Non-Executive Director), Paolo Mussini (CEO), Giuliano Pini (CEO), Enrico Palandri (Independent Director), Sonia Bonfiglioli (Independent Director) and Paolo Onofri (Independent Director) and Roberto Tuniola.

The Assembly is therefore called upon, in accordance with applicable regulations of Art. 21 of the By-laws, to appoint the new members of the Board of Directors, after determining the number of its members, and to establish its compensation.

According to Article 21 of the By-laws, the Company is managed by a Board of Directors composed of a minimum of 7 members and a maximum of 15 members, who shall hold office for one, two or three years, as determined by Meeting. Directors may be non-share holders and may be re-elected.

In this regard, please note that:

- (i) Article 147-ter, paragraph 4 of the TUF provides that at least one of the members of the Board of Directors, or two if the Board of Directors is composed of more than seven members, must meet the independence requirements for auditors pursuant to Art.148, paragraph 3 of the TUF; and
- (ii) under Article IA.2.10.6 of the Instructions for the Regulations of the markets organised and managed by Borsa Italiana and, in order to maintain the requirements for STAR issuers (such as the Company), if the Board of Directors were to be made up of a number of members not exceeding 8 must include at least two independent directors; if the Board of Directors were to be composed of a number of members from 9 to 14 members, it must at least contain 3 independent directors; and, if the Board of Directors were to be composed of a number of members of more than 14 members, it must have at least 4 independent directors.

To ensure that a Director is elected by minority shareholders, the Board of Directors will be appointed under the terms and in the manner provided for in Article 21 of the By-laws (to which reference must be made for what is not provided below). In particular, we remind you of the following.

Shareholders who, alone or together with others, hold shares representing at least 2.5% (two point five) of the share capital entitled to vote in the Assembly have the right to submit the lists of candidates, in accordance with Consob. Resolution 19856/2017.

Each Shareholder, Shareholders adhering to a shareholders' agreement, the parent company, subsidiary companies and those subject to common control pursuant to Art. 93 of the TUF cannot submit or participate in the presentation, even through a third party or trust company, of more than one list, or vote, even through a third party or trust company, lists other than that submitted. The support and votes cast which infringe the above prohibition will not be attributed to any list.

The lists must be deposited at the Company's registered office within twenty-five days before the Meeting, and made available to the public at the registered office, on the *website* and other means provided by law and regulations at least twenty days prior to the date.

The ownership of the shareholding required for submitting lists by the Shareholders is calculated with regard to the shares registered in favour of the Shareholder on the day on which the lists are deposited at the registered office. Its certification, issued in accordance with current legislation enabled by the financial intermediary, can be produced even after filing, provided that it reaches the Company within the period required by current regulations for the publication of the lists by the Company.

Each list must include at least a number of candidates - in accordance with the provisions of applicable regulations - in possession of the independence requirements prescribed by laws or regulations applicable clearly indicated and entering one of them at the top of the list. At the same time of depositing the lists, information must be provided allowing to identify those who submit them.

Each list must be deposited together with the statements in which the candidates accept the appointment and attest, under their own responsibility, that there are no causes of ineligibility or incompatibility, and that the requirements prescribed by law and the By-laws for the respective terms of office have been complied with. Along with the above statements, a comprehensive description of the personal and professional data and indication of the suitability to qualify as independent as defined by law is deposited at the registered office for each candidate.

Those who submit a "minority list" are also recipients of the recommendations made by Consob through its Communication no. DEM / 9017893 of 26 February 2009.

Article 21 of the By-laws further provides that the renewal of the Board of Directors must take place in accordance with regulations on gender under the laws and regulations applicable, on the basis of lists submitted by shareholders in which candidates are listed a progressive number.

Lists that have a number of candidates equal or higher to three must include candidates of different genders, to belong to the less represented gender a number (rounded upwards) of candidates at least equal to one third of the directors elected.

Any list which fails to observe the foregoing requirements described above shall be considered as not having been submitted

Shareholders who wish to submit a list can contact in advance the address renato.martelli@panariagroup.it, to obtain the necessary operational details.

In light of the above, we invite you, after determining the number of members of the Board of Directors, to appoint the latter expressing your vote in favour of one of the lists submitted, stating that, where no lists are submitted, the General Meeting shall decide on a legal majority, subject to compliance with the applicable regulations *pro tempore* on the balance between genders.

We remind you, finally, that, in accordance with Article 17 of the By-laws, you will have to determine the compensation to be paid to the Board of Directors. It is recalled that the Meeting of April 28, 2016 had set as a maximum Euro 655,000.00 (six hundred and fifty-five thousand point zero zero) as the fixed gross annual amount to be paid to the Board of Directors in remuneration for the year 2016 and until the approval of the financial statements as at 31 December, 2016, and a maximum of Euro 310,000.00 (three hundred and ten thousand point zero zero) of the variable gross annual remuneration for the year 2016 to be attributed to executive directors, after hearing the opinion of the Board of Statutory Auditors and of the Remuneration Committee.

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Item 4 on the agenda - *Renewal of the authorisation to purchase and sale of treasury shares; related and consequent resolutions.*

Dear shareholders,

in relation to item four on the agenda, please refer to what is stated in the report drafted pursuant to Article 73 of the Issuers Regulation, which will be filed in the terms required by law at the registered office, Borsa Italiana S.p.A, on the company's website at www.panariagroup.it, as well as on the authorised IInfo storage mechanism at www.linfo.it.

Sassuolo, 17 March 2017

By the Board of Directors
The Chairman
Emilio Mussini