

**PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.**

Registered office in Finale Emilia (MO), at Via Panaria Bassa 22/A  
Share capital Euro 22,677,645.50 fully paid-in  
Registration number with Modena Companies House: 01865640369  
Website [www.panariagroup.it](http://www.panariagroup.it)

**Directors' Report in accordance with Articles 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 (the "Consolidated Finance Act") and 84-ter of the Regulation adopted by Consob Resolution no. 11971 of 14 May 1999 (the "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 to your approval in connection with the items on the agenda of the Shareholders' Meeting to be held on 29 April 2019 (single call).

**Item 1 on the agenda** - *Presentation of the Panariagroup Group consolidated financial statements and approval of the annual financial statements as at 31 December 2018; related and consequent resolutions.*

Dear Shareholders,

The Board of Directors of your Company has convened you to an ordinary Shareholders' Meeting to propose to you the approval of the Company's annual financial statements as at 31 December 2018 and to present you with the consolidated financial statements at 31 December 2018.

The Company's draft annual financial statements as at 31 December 2018 were approved by the Board of Directors on 15 March 2019.

Please note that the report on operations and consolidated non-financial declaration ("**NFD**") will be made available to the public, together with the draft annual financial statements of Panariagroup as at 31 December 2018, the consolidated financial statements of Panariagroup as at 31 December 2018, the certificate of the manager appointed to prepare the company's accounting documents, the report by the Board of Auditors and the report by the independent auditing firm, at the company's registered office and at Borsa Italiana S.p.A., on the Company's website ([www.panariagroup.it](http://www.panariagroup.it)) as well as at the authorised storage mechanism IInfo at [www.linfo.it](http://www.linfo.it), in accordance with the terms of the law and in any case by 31 March 2019.

For complete information about the matter in question, please refer to the Report by the Board of Directors on Operations and the additional documentation as shall be made available to the public, in accordance with the law, at the registered office and at Borsa Italiana S.p.A., as well as on the website [www.panariagroup.it](http://www.panariagroup.it), in the Investor Relations section, as well as on the authorised storage mechanism IInfo, at [www.linfo.it](http://www.linfo.it).

As specified above, only the annual financial statements will be submitted for approval by the Shareholders' Meeting, in accordance with Article 2364, paragraph 1, point 1) of the Italian Civil Code; the consolidated financial statements will be made available to the Shareholders but will not be approved by the Meeting.

In also referring to the report by the Board of Directors on Operations, we would ask you to please resolve as follows:

*"The Ordinary Shareholders' Meeting,*

- *after examining the annual financial statements of the Company as at 31 December 2018 and the Board of Directors' Report on Operations;*
- *having regard to the Report by the Board of Auditors to the Shareholders' Meeting pursuant to Art. 153 of Italian Legislative Decree 58/1998;*
- *having regard to the Report by the Independent Auditing Firm in relation to the draft annual financial statements as at 31 December 2018;*

***resolved***

*to approve the Company's financial statements as at 31 December 2018 in addition to the Board of Directors' Management Report and to allocate the profit for the year as follows:*

- *5% of the net profit to the legal reserve;*
- *the remainder to the Extraordinary Reserve.*

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**Item 2 on the agenda** - *Resolutions regarding the report on remuneration; related and consequent resolutions.*

Dear Shareholders,

In connection with item 2 on the agenda, the Board of Directors intends to submit to the Shareholders' Meeting, the report on remuneration of the members of the administrative bodies, the general managers and other managers with strategic responsibilities, in accordance with Articles 123-*ter* of the Consolidated Finance Act and 84-*quater* of the Issuers' Regulation, as well as with Article 6 of the Corporate Governance Code, in the version dated July 2018 (the "**Report on Remuneration**").

The Report on Remuneration has been prepared in compliance with Annex 3A, Table 7-*bis* of the Issuers' Regulation and consists of two sections. The first section of the Report on Remuneration illustrates: (i) the Company's policy on the remuneration of the members of the administrative bodies, general managers and managers with strategic responsibilities with reference to at least the following financial year; and (ii) the procedures used to adopt and implement said policy. The second section of the Report on Remuneration: (i) provides an adequate representation of each of the items comprising the remuneration, including the treatments envisaged in the event of cessation of office or termination of the contract of employment, highlighting consistency with the Company's Remuneration Policy, as approved during the previous year; and (ii) analytically presents the compensation paid during the reference year. Finally, any investments held by the above subjects are indicated in the Report on Remuneration.

In accordance with Article 123-ter, paragraph 6 of the Consolidated Finance Act, the Shareholders' Meeting is required to rule, with a non-binding resolution, in favour or against the first section of the Report on Remuneration.

In this regard, we would refer you to the information given in the report prepared in accordance with Articles 123-ter of the Consolidated Finance Act and Art. 84-*quater* of the Issuers' Regulation, as well as with Article 6 of the Corporate Governance Code, which will be deposited by the deadline envisaged by current legislation at the registered office, at Borsa Italiana S.p.A., on the Company's website at [www.panariagroup.it](http://www.panariagroup.it), as well as on the authorised storage mechanism IInfo, at [www.iinfo.it](http://www.iinfo.it).

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**Item 3 on the agenda** - *Appointment of the members and Chairman of the Board of Auditors for the three-year period 2019-2021; determination of the related compensation; related and consequent resolutions.*

Dear Shareholders,

With reference to item 3 on the agenda, the Board of Directors notes that with the approval of the annual financial report as at 31 December 2018, the Board of Auditors of Panariagroup Industrie Ceramiche S.p.A., appointed by the Shareholders' Meeting on 28 April 2016, expires for completion of the office.

The current members of the Board of Auditors are: Sergio Marchese (Chairman of the Board of Auditors), Pier Giovanni Ascari (Standing Auditor), Francesca Muserra (Standing Auditor) and Vittorio Pincelli (Alternate Auditor) insofar as on 27 June 2018, Fabio Andreoli (Alternate Auditor), had tendered his resignation for reasons relating to personal commitments.

In accordance with the law and the Articles of Association, the Board of Auditors will be replenished at the next Shareholders' Meeting, called in accordance with applicable law and regulations and with Art. 30 of the Articles of Association, to renew the Board of Auditors and, in particular, to:

- appoint three Standing Auditors and two Alternate Auditors;
- appoint the Chairman of the Board of Auditors, where he cannot be chosen following application of the list voting mechanism;
- determine the compensation of the members of the Board of Auditors.

In accordance with Article 30 of the Articles of Association as well as with applicable legislation and regulations, Auditors shall be appointed on the basis of the lists submitted by shareholders, giving the names of candidates in progressive order.

Each list shall have two sections: one for candidates for the office of standing auditor, the other for candidates for the office of alternate auditor. Two Standing Auditors and one Alternate Auditor shall be chosen from the list that obtains the majority of votes cast by Shareholders; the other Standing Auditor and Alternate Auditor shall be taken from the other lists (the "minority lists"). The Chairman is appointed by the Shareholders' Meeting from the Auditors elected from the minority list.

Lists of candidates can be submitted by Shareholders who, alone or jointly with other Shareholders, account for a total of at least 2.5% of the shares with the right to vote in the ordinary Shareholders' Meeting, in accordance with applicable provisions of law, regulations and the Articles of Association and Consob Managerial Resolution no. 13 of 24 January 2019.

Each Shareholder, Shareholders adhering to a shareholder agreements, the parent company, subsidiaries and joint ventures pursuant to Article 93 of the Consolidated Finance Act, cannot submit or participate in the submission of more than one list, either directly or through a third party or a trustee, nor can they vote for any list other than that presented, either directly or through a third party or a trustee. Acceptances or votes breaching such prohibition shall not be assigned to any list.

Each candidate may only appear in one list, under penalty of ineligibility.

Together with the lists, a declaration must also be deposited by the Shareholders presenting it, containing full information on their identity and the percentage stake held jointly. Ownership of the total stake held is attested, in accordance with current regulations, even after depositing the lists, as long as by the deadline envisaged for publication of the lists by the Company, i.e. at least 21 days before the date scheduled for the Shareholders' Meeting.

The minority lists for the appointment of the Board of Auditors must be accompanied by a statement certifying the absence of the relations provided for in Art. 144-*quinquies* of the Issuers' Regulation. Art. 144-*sexies*, paragraph 4, letter b) of the Issuers' Regulation applies to the minority lists for the appointment of the Board of Auditors. For the purposes of preparing minority shareholder lists relating to the appointment of the Board of Auditors, Shareholders are asked to consider the recommendations made by Consob on relations between minority and majority shareholder lists contained in Communication no. DEM/9017893 of 26 February 2009.

The lists of candidates must be accompanied by declarations concerning the fulfilment of independence requirements as envisaged by Art. 148, paragraph 3 of the Consolidated Finance Act. Shareholders are also asked to please consider, in examining the candidates to the role of Auditor, the independence requirements envisaged by the Corporate Governance Code of Borsa Italiana S.p.A. Candidates to the office of Auditor must meet the requirements of honour as well as professionalism, as envisaged by Decree no. 162 of the Ministry of Justice of 30 March 2000 and as indicated by Art. 30 of the Articles of Association.

Together with each list, the declarations must also be submitted whereby the individual candidates accept their candidacies and certify, under their own personal responsibility, the absence of any grounds for ineligibility and conflict of interest, as well as fulfilment of the requirements prescribed by applicable laws and regulations and the Articles of Association for the position.

Together with the above declarations, each candidate must also have a CV filed regarding their personal and professional characteristics.

Considering that, in accordance with Art. 2400, last paragraph, of the Italian Civil Code, at the time of nomination, and before their acceptance of office, the Shareholders' Meeting must be informed of all the offices of administration and control held by the Auditors in other companies, and, also taking account of the provisions of Article 148-*bis* of the Consolidated Finance Act, they are asked to provide specific declarations to this effect with their CVs, and it is recommended that they ensure that said declarations are kept up-to-date until the date of the Shareholders' Meeting.

The lists of candidates, signed by those submitting them, and the related supporting documentation, must be deposited at the Company's registered office, or notified electronically to the e-mail address [renato.martelli@panariagroup.it](mailto:renato.martelli@panariagroup.it) at least twenty-five days before the date scheduled for the Shareholders' Meeting at sole call, and, therefore, by 04 April 2019.

If, by this deadline, only one list has been submitted, or only lists that are connected in accordance with applicable legislation and regulations, additional lists may be submitted within the next three days. In this case, the threshold of 2.5% indicated previously for the submission of lists, is reduced to 1.25%.

Within the terms envisaged by current regulations (i.e. 21 days before the date scheduled for the Shareholders' Meeting at sole call), the Company will make the lists of candidates deposited by Shareholders available to the public, complete with the information required by applicable regulations, at the registered office, at Borsa Italiana S.p.A., on the authorised storage mechanism IInfo at [www.linfo.it](http://www.linfo.it), as well as by means of publication on the website [www.panariagroup.it](http://www.panariagroup.it).

Any lists submitted in breach of the provisions of Article 30 of the Articles of Association and of applicable legislation will be considered as not having been submitted.

Article 30 of the Articles of Association establishes that the Board of Auditors shall be renewed in compliance with the regulations governing gender balance pursuant to Italian Law no. 120 of 12 July 2011 and applicable legal and regulatory provisions. Shareholders intending to submit a list for the renewal of the Board of Auditors including a number of candidates of three or more, are therefore asked to include in the section of standing auditors at least one third belonging to the least represented gender (rounding up, if necessary) and, if the section of alternate auditors should indicate two candidates, one of each gender.

Auditors shall be elected as follows:

- 1) in progressive order in which they are listed in the list sections, two standing members and one alternate member from the list that obtained the most votes in the shareholders' meeting;
- 2) in progressive order in which they are listed in the list sections, the remaining standing member and the other alternate member from the list that obtained the second most votes in the shareholders' meeting;
- 3) if more than one list obtained the same number of votes, in order to establish the hierarchy of such lists, in accordance with and pursuant to points 1) and/or 2) above, all subjects entitled to attend the Shareholders' Meeting shall vote again, between the lists that obtained the same number of votes;
- 4) if only one list is submitted, or in any case only one list is voted, the first three candidates on said list in progressive order will be elected as Standing Auditors and the fourth and fifth candidate in progressive order of said same list will be elected as Alternate Auditors.

If, using the above methods, the standing members of the Board of Auditors are not compliant with the regulations in force at the time on gender balance, the necessary replacements will be made of candidates to the office of standing auditor, from the list that obtained the most votes, in the progressive order in which the candidates are listed.

Shareholders who intend to submit a list may e-mail the Investor Relater Office at [renato.martelli@panariagroup.it](mailto:renato.martelli@panariagroup.it), to acquire the necessary operational details. More information about the rights and the foregoing is available from the Company's website [www.panariagroup.it](http://www.panariagroup.it).

In addition to the appointment of the Board of Auditors, a resolution is also necessary on the assignment of the annual compensation to the members of the Board of Auditors, currently established as Euro 24,000.00 for the Chairman and Euro 20,000.00 for the other standing auditors.

All thus said, in accordance with and pursuant to the provisions of the Articles of Association and legislation, including regulations, as applicable, we would ask you to please submit lists of candidates for the appointment of the members of the Board of Auditors, as well as proposals for the determination of the related compensations and to resolve on:

- the appointment of the members of the Board of Auditors (three Standing Auditors and two Alternate Auditors) by means of voting lists of candidates as may be presented;
- the appointment of the Chairman of the Board of Auditors, except where he can be identified in accordance with the provisions of the Articles of Association;
- the determination of the compensation due to the members of the Board of Auditors.

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**Item 4 on the agenda** - *Determination of the compensation of the members of the Board of Directors; related and consequent resolutions.*

Dear Shareholders,

In connection with item 4 on the agenda, we would remind you that, in accordance with Article 17 of the Articles of Association, you are called to determine the compensation to be paid to the Board of Directors. Please remember that the Shareholders' Meeting of 27 April 2018 determined that the fixed part of the amount to be paid to the Board of Directors by way of compensation for FY 2018 would be a gross figure of Euro 615,000.00 and the variable emoluments to be paid to directors with executive positions would be a gross maximum of Euro 300,000.00; this was decided after consulting with the Board of auditors and the Remuneration Committee.

In light of the foregoing, it is therefore necessary to determine the compensation of the Board of Directors for FY 2019.

The Board of Directors shall not make any specific proposals in this regard and invites you to resolve on the basis of the proposals that may be made during this Shareholders' Meeting.

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**Item 5 on the agenda** - *Renewal of the authorisation to purchase and sell own shares; related and consequent resolutions.*

Dear Shareholders,

In connection with item 5 on the agenda, reference is made to the information given in the report prepared in accordance with Article 73 of the Issuers' Regulation, which will be deposited by the deadline established by current legislation at the registered office, with Borsa Italiana S.p.A., on the Company's website (at [www.panariagroup.it](http://www.panariagroup.it)) and on the authorised storage mechanism IInfo, at [www.1info.it](http://www.1info.it).

Sassuolo, 19 March 2019

For the Board of Directors  
The Chairman  
**Emilio Mussini**