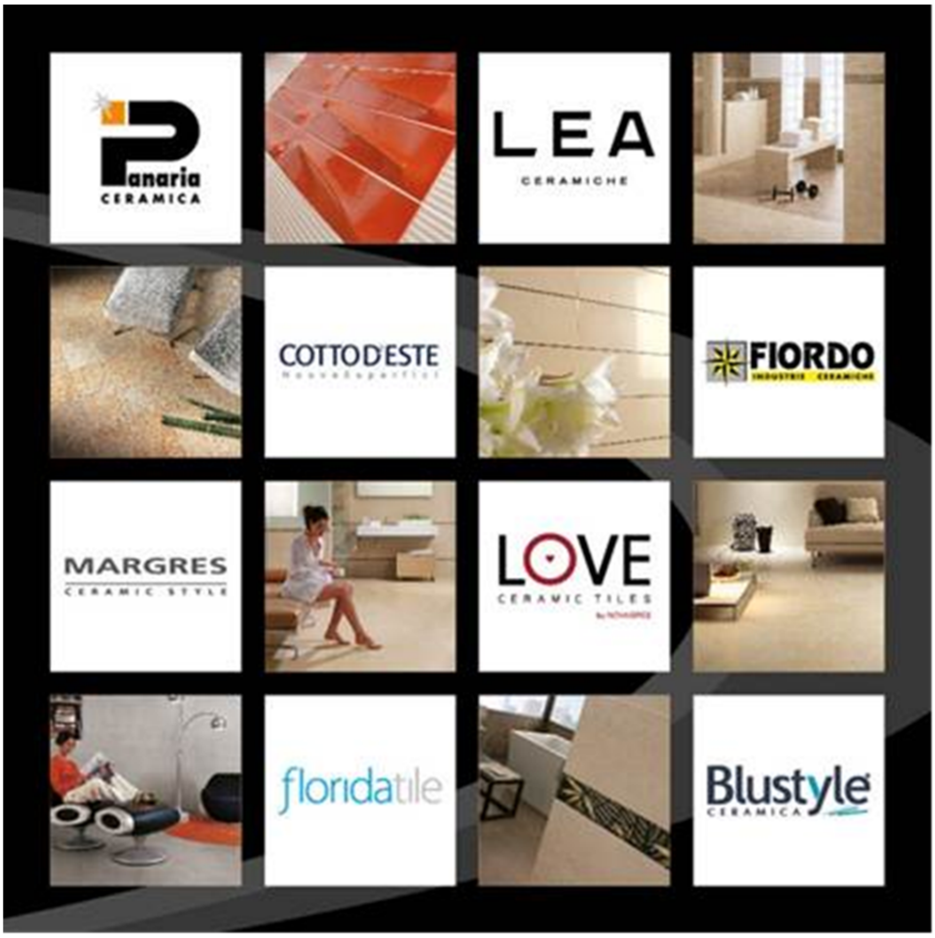
PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

CONSOLIDATED ANNUAL REPORT 2013 - DRAFT



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Panariagroup Industrie Ceramiche

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

Introduction

The consolidated 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 provisions issued in implementation of Article 9 of Legislative Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

The Group 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.

In connection with regulations on the listing of parent companies incorporated or regulated under the laws of countries not belonging to the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- As of 31 December 2013 three of the companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc. and Lea North America LLC.

- Adequate procedures have been adopted to ensure thorough compliance with the new rules (art. 36 of Market Regulations issued by Consob).

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).

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 floors and walls 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), 20/4/1961
Giuliano Mussini	Deputy Chairman of the Board of Directors	Modena, 10/9/1930
Giovanna Mussini	Deputy Chairman of the Board of Directors	Sassuolo (MO), 12/4/1959
Andrea Mussini	Managing Director	Sassuolo (MO), 15/5/1958
Giuseppe Mussini	Managing Director	Sassuolo (MO), 23/11/1962
Paolo Mussini	Managing Director	Sassuolo (MO), 11/2/1958
Giuliano Pini	Managing Director	Modena, 21/5/1952
Marco Mussini	Director	Sassuolo (MO), 21/7/1971
Enrico Palandri(*)	Director	Milan, 2/10/1962
Alessandro Iori(*)	Director	Reggio Emilia, 15/6/1943
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), 3/8/1943
Massimiliano Stradi	Alternate Auditor	Sassuolo (MO), 16/3/1973
Arianna Giglioli	Alternate Auditor	Milan, 13/8/1974

Independent Auditors

Reconta Ernst & Young S.p.A.

Directors' Report on the
2013 Consolidated 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, Group revenues decreased slightly; this was equally due to a fall in volumes and prices.

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

- Consolidated revenues from sales amounted to Euro 273.0 million, a decrease of 2.8% with respect to 2012.
- Gross operating profit was equal to Euro 14.0 million (Euro 21.1 million in 2012).
- There was a net operating loss of Euro 6.8 million (loss of Euro 5.5 million in 2012).
- The net consolidated loss was equal to Euro 7.8 million (net profit of Euro 1.6 million in 2012).

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 an organizational rationalization of the Portuguese Business Unit as well as a significant decrease in the productive activities of European plants in order to decrease net working capital.

It should be noted that this policy allowed us to reduce net working capital by Euro 17 million, with an improvement of the net financial position despite an unsatisfactory economic result.

In addition, European companies – 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.

With regard to trends in individual Business Units, the good performance of the US Business Unit should be noted compared to the difficulties of the European Business Units which were more negatively affected by the negative conditions of their primary markets.

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.

An important restructuring operation was applied to the Portuguese Business Unit, involving the productive, logistical and commercial departments. This operation, first of all, resulted in a significant decrease in staff levels which, on the one hand, resulted in an increase in 2013 costs for severance incentives but which, on the other hand, will provide annual estimated savings of Euro 1.2 million as of 2014. Secondly, other operations were implemented; these primarily involved a decrease in production costs whose estimated impact is an annual savings of approximately Euro 500 thousand.

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 Group and continue to be very successful in the market. As of 2014, and at the time of the most important trade fair within the US market (Coverings), the new product lines of gres laminate - produced in Italy and marketed under the brand Florida Tile - will be presented; we believe we can attain a significant increase in distribution of this type of product in North America.

The activities for implementation of the commercial structure of the joint venture in India have been continuing; we are continuing to execute our plans for growth since we are convinced that the Indian market represents a major opportunity for the ceramics industry.

In terms of industrial developments, the Group 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.

In Portugal, an important logistical re-organization of the building was implemented within the Ilhavo plant; by introducing a higher level of automation. As a consequence, material flows were optimized and there was less need for manpower.

Different types of operations for improving production processes were also implemented in the American plant of Lawrenceburg; the most significant operation – whose purpose was the potential future installation of a new furnace – involved the expansion of the department for enamel coverings, including automations for internal handling.

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 Group'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 Group's 2013 results

Income statement at 31 December 2013 compared with 31 December 2012

(in thousands of euro)

	December 31, 2013	%	December 31, 2012	%	var.
Revenues from sales and services	**272,971**	**100.93%**	**280,778**	**94.25%**	**(7,807)**
Change in inventories of finished products	(11,900)	-4.40%	1,851	0.62%	(13,751)
Other revenues	8,331	3.08%	6,973	2.34%	1,358
Income from unexpected events	1,061	0.39%	8,315	2.79%	(7,254)
Value of Production	**270,463**	**100.00%**	**297,917**	**100.00%**	**(27,454)**
Raw, ancillary and consumable materials	(70,808)	-26.18%	(77,278)	-25.94%	6,470
Services, leases and rentals	(110,478)	-40.85%	(119,600)	-40.15%	9,122
Personnel costs	(70,832)	-26.19%	(71,647)	-24.05%	815
Changes in inventories of raw materials	(125)	-0.05%	521	0.17%	(646)
Other operating expenses	(3,214)	-1.19%	(2,946)	-0.99%	(268)
Costs from unexpected events	(962)	-0.36%	(5,871)	-1.97%	4,909
Cost of production	**(256,419)**	**-94.81%**	**(276,821)**	**-92.92%**	**20,402**
Gross operating profit	**14,044**	**5.19%**	**21,096**	**7.08%**	**(7,052)**
D&A expenses	(17,255)	-6.38%	(17,640)	-5.92%	385
Provisions and other impairments	(3,634)	-1.34%	(1,852)	-0.62%	(1,782)
Impairment of goodwill	0	0.00%	(4,650)	-1.56%	4,650
Provisions from unexpected events	0	0.00%	(2,500)	-0.84%	2,500
Net operating profit	**(6,845)**	**-2.53%**	**(5,546)**	**-1.86%**	**(1,299)**
Financial income and expense	(4,020)	-1.49%	(3,698)	-1.24%	(322)
Pre-tax profit	**(10,865)**	**-4.02%**	**(9,244)**	**-3.10%**	**(1,621)**
Income taxes estimated	3,014	1.11%	10,835	3.64%	(7,821)
Net profit (loss) for the period	**(7,851)**	**-2.90%**	**1,591**	**0.53%**	**(9,442)**

For the purposes of greater clarity in reporting within this re-classified financial statement of the Report on Operations, the item “Impairment of goodwill” was separated from the item “Provisions and other impairments”.

Consolidated revenues

Revenues from sales declined by **2.8%** overall, falling from Euro 280.8 million in 2012 to Euro 273.0 million in 2013.

Principal markets

As previously reported, an excellent 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.

The **US market** was again confirmed as the primary market of the Group, with overall sales totalling Euro 87.3 million. In 2013, a growth – in Euro – of 8.6% was reported; this figure is equal to 12.2% if one considers the sales expressed in USD.
In this market, our group benefits from the positive economic conditions which are well supported by the efficient commercial and productive organization of the US Business Unit.
The US market share represents 32% of total sales.

The **European market** fell overall by 11.0% in the primary countries of Western Europe, with specific peaks in Portugal, France and Germany. Sales in Eastern Europe have remained essentially unchanged compared with the previous year.
The European market share represents 33% of total sales.

In the last quarter, there were signs of recovery in the **Italian market** which further reduced the negative gap relative to the previous year by 5%; this result was essentially in line with the average data of the sector.
The Italian market share represents 24% of total sales.

In **other markets (Asia, South America, Oceania and Africa)** the Group 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 11% of total sales.

Performance of the Group's brands

The concentration of European brands within their domestic markets 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%, while Portuguese brands reduced their business volumes by 10%, particularly due to the situation in the internal market.

US brands overall fully confirmed their growth forecasts which are expected to continue in the short and medium term. In particular, the results obtained by the chain of stores of Florida Tile – which realized growth of more than 20% – should be noted. With regard to this point, a new sales point was opened in 2013 and two new stores are planned to be opened in 2014 in order to further strengthen the market position.

For the year which just began, the North American market represents a solid reality for the Group; the presence of a structured and efficient organization such as Florida Tile in the territory will allow us to fully exploit the positive dynamics of the construction market; this positive outlook is confirmed by all the primary forecasting indicators.

We also expect excellent results within Asian markets and in Oceania due to the strengthening of the growth strategies of Panariagroup Trade - the division of the Group 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.

In the case of the Portuguese brands (Margres and Love Tiles) we believe that there are interesting growth prospects in Africa, a market in which we have had increasing success; however, we believe there are margins for growth even within traditional European markets.

It is our objective, in fact, to increasingly develop the potential of the Portuguese production site which is characterized by high qualitative standards as well as costs that are very competitive.

Prospects for 2014 consolidated revenues are therefore positive.

The current structure of the Group, with more than 75% of sales composed of exports and with 50% of production implemented in foreign territories, provides us with a balanced geographical diversification.

Operating results

Gross operating profit came to Euro 14.0 million, representing 5.2% of the value of production (Euro 21.1 million, 7.1%, in 2012)

The main factors behind this change in profits are:

- a decrease in sales of Euro 7.8 million, resulting in an estimated decrease in the margin of approximately Euro 2.7 million.
- a significant decrease in volumes with respect to 2012, equal to 9.1%, resulting in a negative effect of at least Euro 3 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 6.8 million (loss of Euro 5.5 million in 2012).

It should be noted that the net operating loss in 2012 million included the impairment of goodwill of Montanari S.r.l. and Gres Panaria Portugal for a total of Euro 4.7 million.

Moreover, and as noted above, prudential allocations were made to provisions for impairments which exceeded those of the previous year by Euro 1.8 million.

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

The balance between financial expense and income was slightly worse; the foreign currency exchange balance was negative due to the depreciation of the USD while the cost of debt fell due to a decrease in financial exposure and a fall in rates.

The **pre-tax result** is a loss of Euro 10.9 million, down by Euro 1.6 million compared to 2012.

With regard to taxes, it should be noted that the year 2012 was very positively influenced by deferred tax assets that were recognized in the company Panariagroup USA for an overall total of Euro 7.2 million, due to the actual and perspective results of the controlled Company.
These effects were not booked in previous years due to the absence of the prerequisites required by accounting standards.

The **consolidated net loss** amounted to Euro 7.8 million (net profit of Euro 1.6 million in 2012).

Review of the balance sheet

Financial position

(in thousands of Euro)

	December 31, 2013	*restated (*)* December 31, 2012
Inventories	128,274	144,591
Accounts Receivable	66,510	72,048
Other current assets	10,028	16,038
CURRENT ASSETS	**204,812**	**232,677**
Account Payables	(50,655)	(59,772)
Other current liabilities	(23,670)	(25,459)
CURRENT LIABILITIES	**(74,325)**	**(85,231)**
NET WORKING CAPITAL	**130,487**	**147,446**
Goodwill	8,139	8,139
Intangible assets	2,149	2,425
Tangible assets	90,358	91,625
Equity Investments and other financial assets	358	361
FIXED ASSETS	**101,004**	**102,550**
Receivables due after following year	952	441
Provision for termination benefits	(6,101)	(6,359)
Provision for risk and charge	(3,994)	(5,738)
Deferred tax assets	13,589	9,703
Other payables due after the year	(1,925)	(2,575)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**2,521**	**(4,528)**
NET CAPITAL EMPLOYED	**234,012**	**245,468**

Short term financial assets	(9,973)	(4,559)
Short term financial debt	44,931	37,116
NET SHORT TERM FINACIAL DEBT	**34,958**	**32,557**
Mid-Long term financial debt	55,894	59,590
NET FINANCIAL POSITION	**90,852**	**92,147**
Group Shareholders' Equity	143,160	153,321
SHAREHOLDERS' EQUITY	**143,160**	**153,321**
TOTAL SOURCES OF FOUNDS	**234,012**	**245,468**

(*) 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 Group are particularly evident in the significant decrease in net working capital, totalling approximately Euro 17 million.

This change is ascribable to the significant decrease in warehouse inventories which fell by Euro 16.3 million along with a decrease in the following: trade receivables (Euro -5.5 million); other current assets (Euro -6.0 million); trade payables (Euro -9.1 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 decreased by Euro 1.5 million in 2013.

The decrease was due to the following factors:

- net investments of Euro 16.6 million, subdivided as follows: Euro 10.6 million in the Italian Business Unit, Euro 3.3 million in the Portuguese Business Unit and Euro 2.7 million in the US Business Unit
- the lower value of fixed assets of the US sub-consolidation expressed in Euro, because of the depreciation of the dollar since the end of 2012, totalling Euro 0.8 million.
- depreciation and amortisation for the period of Euro 17.3 million.

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

Net financial position

Financial cash flow
(thousands euro)

	December 31, 2013	December 31, 2012
Net financial position (debt) - beginning	**(92.146)**	**(84.874)**
Net Result for the period	(7.851)	1.591
D & A	17.255	22.290
Net Variation Provisions	(4.134)	(7.204)
Internal operating Cash flow	**5.270**	**16.677**
Change in net working capital and other assets and liabilities	14.027	(5.675)
Net Investments	(16.527)	(17.381)
Exchange rate diff. from US$ financial statement conversions	(1.476)	(893)
Net financial position (debt) - final	**(90.852)**	**(92.146)**

The net financial position has improved with respect to the end of 2012 by Euro 1.3 million. This result should be considered extremely positive given that year ended with a loss of Euro 7.8 million 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.

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 decreased from Euro 153.3 million to Euro 143.2 million, a decrease of Euro 10.1 million.

The decrease is attributable to the net loss for the year of Euro 7.8 million as well as the significant negative effect of the foreign currency translation of the financial statements of US companies to Euro of Euro 2.3 million.

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 Group are not significantly different from each other in terms of product nature, nature of the production process, distribution channels, geographical distribution or types of customer. Accordingly, considering the requirements specified in paragraph 12 of the standard, the 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:

CONSOLIDATED FINANCIAL STATEMENT

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

ASSETS	Italy	Europe	USA	Other	TOTAL	check
CURRENT ASSETS	**121,316**	**40,171**	**45,660**	**8,251**	**215,398**	**0**
Inventories	72,573	22,411	33,290	0	128,274	0
Trade Receivables	31,942	15,764	10,553	8,251	66,510	0
Due from tax authorities	3,499	1,282	114	0	4,895	0
Other current assets	4,429	523	794	0	5,746	0
Cash and cash equivalents	8,873	191	909	0	9,973	0
NON-CURRENT ASSETS	**50,907**	**41,792**	**36,299**	**352**	**129,350**	**0**
Goodwill	350	7,789	0	0	8,139	0
Intangible assets	651	215	1,283	0	2,149	0
Property, plant and equipment	39,142	31,420	19,796	0	90,358	0
Financial assets	7	0	8,592	352	8,951	0
Deferred tax assets	10,206	2,368	6,227	0	18,801	0
Other non-current assets	551	0	401	0	952	0
TOTAL ASSETS	**172,223**	**81,963**	**81,959**	**8,603**	**344,748**	**0**

	Italy	Europe	USA	Other	TOTAL	check
Net investments in tangible assets 2013	**10,230**	**3,150**	**2,602**	**0**	**15,982**	**0**

Research and development activities

Research and development activities, a distinguishing feature of our Group 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 consolidated financial statements.

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

Reconciliation of the Parent Company's equity and net profit with the corresponding consolidated amounts

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net results with the corresponding consolidated amounts reported at 31 December 2013 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Partent Company)	**146.683**	**3.750**
a) Difference between the book value of equity investments and their value using the equity method	(3.129)	24
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(920)	(186)
c) Reversal of excahange losses (gains) on intercompany loan	0	679
d) Aligment to Group depreciation's rates	150	(22)
e) Recognition of deffered tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	294	204
f) Elimination of unrealised gains arising from dividend disribution	0	0
g) Restore of the carrying value of investments in subsidiaries	0	(12.300)
h) Decrise of Goodwill for Impairment	0	0
i) Others	82	0
Net effect of consolidation adjustments	**(3.523)**	**(11.601)**
As per consolidated financial statements	**143.160**	**(7.851)**

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	*% equity*	*Average book value*	*Amount*
432,234	**0.953%**	**3.7347**	**1,614,284.94**

The number of treasury shares in portfolio is the same as 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.

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.

Significant subsequent events

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

Outlook for Group 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 will certainly benefit from the activities of rationalization and re-organization of production, logistical and commercial departments that were completed in Portugal in 2013; we also expect an improvement in efficiency due to the restructuring of certain departments of logical and commercial nature within the Italian Business Unit.

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

In addition to this positive outlook for the European Business Units, there are expectations for additional growth in the economic results of the US Business Unit.

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 Group 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 Group could be adversely affected, with a negative impact on the balance sheet, income statement and cash flows of the Group.

CREDIT AND LIQUIDITY RISK

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

RISK OF DEPENDENCE ON KEY PERSONNEL

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

MARKET RISK

Competition risk:

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

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2012 and 2013. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term.

Environmental protection, personnel costs and regulations relating to the sector

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

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

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

The average workforce in 2013 was equal to 1,589 individuals, a decrease of 38 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
Muserra 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

The Chairman

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

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	**215.398**	
Inventories	128.274	A
Trade Receivables	66.510	B
Due from tax authorities	4.895	C
Other current assets	5.746	D
Cash and cash equivalents	9.973	E
NON-CURRENT ASSETS	**130.944**	
Goodwill	8.139	F
Intangible assets	2.149	G
Property, plant and equipment	90.358	H
Financial assets	8.951	I
Deferred tax assets	20.395	J
Other non-current assets	952	L
TOTAL ASSETS	**346.342**	

LIABILITIES AND EQUITY	12/31/2013	RIF
CURRENT LIABILITIES	**119.869**	
Due to banks and other sources of finance	45.544	M
Trade payables	50.655	N
Due to tax authorities	2.786	O
Other current liabilities	20.884	P
NON-CURRENT LIABILITIES	**83.313**	
Employee severance indemnities	6.101	Q
Deferred tax liabilities	6.806	R
Provisions for risks and charges	3.994	S
Due to banks and other sources of finance	64.487	T
Other non-current liabilities	1.925	U
TOTAL LIABILITIES	**203.182**	
EQUITY	**143.160**	
Share capital	22.678	V
Reserves	128.333	W
Net profit (loss) for the year	(7.851)	X
TOTAL LIABILITIES AND EQUITY	**346.342**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	12/31/2013	RIF
Inventories	128.274	A
Trade Receivable	66.510	B
Other current assets	10.028	C+D-(*)
CURRENT ASSETS	**204.812**	
Trade Payables	(50.655)	N
Other current liabilities	(23.670)	O + P
CURRENT LIABILITIES	**(74.325)**	
NET WORKING CAPITAL	**130.487**	
Goodwill	8.139	F
Intangible assets	2.149	G
Property, plant and equipment	90.358	H
Equity Investments and other financial assets	358	I - (**)
FIXED ASSETS	**101.004**	
Receivables due beyond 12 months	952	L
Employee severance indemnities	(6.101)	Q
Provision for risk and charge	(3.994)	S
Provision for deferred taxes	13.589	J+R
Other liabilities due beyond 12 months	(1.925)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**2.521**	
NET CAPITAL EMPLOYED	**234.012**	
Short term financial assets	(9.973)	E
Short term financial indebtedness	44.931	M - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**34.958**	
Mid-Long term financial debt	55.894	T - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**55.894**	
NET FINANCIAL POSITION	**90.852**	
Group Shareholders' Equity	143.160	V+W+X
SHAREHOLDERS' EQUITY	**143.160**	
TOTAL SOURCES OF FOUNDS	**234.012**	

(*) CURRENT PORTION OF IRB **613**
Classified under current assets in the IFRS satatement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB **8.593**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

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

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	12/31/2012	RIF
CURRENT ASSETS	**237,877**	
Inventories	144,591	A
Trade Receivables	72,048	B
Due from tax authorities	10,517	C
Other current assets	6,162	D
Cash and cash equivalents	4,559	E
NON-CURRENT ASSETS	**129,109**	
Goodwill	8,139	F
Intangible assets	2,425	G
Property, plant and equipment	91,625	H
Financial assets	9,983	I
Deferred tax assets	16,496	J
Other non-current assets	441	L
TOTAL ASSETS	**366,986**	

LIABILITIES AND EQUITY	12/31/2012	RIF
CURRENT LIABILITIES	**122,988**	
Due to banks and other sources of finance	37,757	M
Trade payables	59,772	N
Due to tax authorities	2,849	O
Other current liabilities	22,610	P
NON-CURRENT LIABILITIES	**90,695**	
Employee severance indemnities	6,384	Q
Deferred tax liabilities	6,786	R
Provisions for risks and charges	5,738	S
Due to banks and other sources of finance	69,212	T
Other non-current liabilities	2,575	U
TOTAL LIABILITIES	**213,683**	
EQUITY	**153,303**	
Share capital	22,678	V
Reserves	129,034	W
Net profit (loss) for the year	1,591	X
TOTAL LIABILITIES AND EQUITY	**366,986**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	12/31/2012	RIF
Inventories	144,591	A
Trade Receivable	72,048	B
Other current assets	16,038	C+D-(*)
CURRENT ASSETS	**232,677**	
Trade Payables	(59,772)	N
Other current liabilities	(25,459)	O + P
CURRENT LIABILITIES	**(85,231)**	
NET WORKING CAPITAL	**147,446**	
Goodwill	8,139	F
Intangible assets	2,425	G
Property, plant and equipment	91,625	H
Equity Investments and other financial assets	361	I - (**)
FIXED ASSETS	**102,550**	
Receivables due beyond 12 months	441	L
Employee severance indemnities	(6,384)	Q
Provision for risk and charge	(5,738)	S
Provision for deferred taxes	9,710	J+R
Other liabilities due beyond 12 months	(2,575)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**(4,546)**	
NET CAPITAL EMPLOYED	**245,450**	
Short term financial assets	(4,559)	E
Short term financial indebtedness	37,116	M - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**32,557**	
Mid-Long term financial debt	59,590	T - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**59,590**	
NET FINANCIAL POSITION	**92,147**	
Group Shareholders' Equity	153,303	V+W+X
SHAREHOLDERS' EQUITY	**153,303**	
TOTAL SOURCES OF FOUNDS	**245,450**	

(*) CURRENT PORTION OF IRB **641**
Classified under current assets in the IFRS satatement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB **9,622**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

RECONCILIATION BETWEEN THE SUMMARY OF CASH FLOWS AND THE 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.

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

		12/31/2013
	Short-term securities	(614)
A	Cash and cash equivalents	(9,973)
	Short-term financial assets	**(10,587)**
	Long-term securities	(8,593)
	Long-term financial assets	**(8,593)**
B	Due to banks	19,527
	Current portion of long-term loans	25,404
	Leases	614
	Short-term financial indebtedness	**45,545**
	Non-current portion of long-term loans	55,894
	Leases	8,593
	Long-term financial indebtedness	**64,487**
	Net financial indebtedness	**90,852**

A+B	**Net short-term financial indebtedness**	**9,554**
	(as reported in IFRS cash flow statement)	

C	**Total net financial position**	**90,852**
	(as reported in summary of cash flow contained in the Director's Report)	

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

(THOUSANDS OF EURO)	**12/31/2013**	
A - OPERATIONS		
Profit (loss) of the year	(7.851)	A
Depreciation and amortisation	17.255	B
Deferred tax liabilities (assets)	(3.879)	C
Net change in provisions	(255)	E
Cash flow (absorption)from operations due to changes in working capital	*5.270*	
(Increase)/(decrease) in trade receivables	5.282	
(Increase)/(decrease) in inventories	14.801	
(Increase)/(decrease) in trade payables	(9.117)	
Net change in other assets/liabilities	3.059	
Cash flow (absorption)from operations due to changes in working capital	*14.025*	F
Total (A) Cash flow from operations	**19.295**	
B - INVESTMENT ACTIVITY		
Net investment in property, plant and equipment and intangible assets	(16.530)	H
Net investment in financial assets	3	J
Exchange difference on property, plant and equipment and intangible assets	818	K
Total (B) Cash flow (absorption) from investment activities	**(15.709)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
Net change in loans	4.927	
Total (C) Cash flow (absorption) from financing activities	**4.927**	
Opening net cash (indebtedness)	**(15.776)**	
Change in the translation reserve	**(2.292)**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**8.512**	
Closing net cash (indebtedness)	**(9.556)**	(X)

Financial cash flow

(thousands euro)

	31/12/13	
Net financial position (debt) - beginning	**(92.146)**	
Net Result for the period	(7.851)	A
D & A	17.255	B
Net change in other provisions	(4.134)	C+E
Self-financing	**5.270**	
Change in net working capital and other assets and liabilities	14.025	F
Distribution of dividends	0	G
Net Investments	(16.527)	H +J
Exchange rate diff. from US$ financial statement conversions	(1.474)	M + N + K
Net financial position (debt) - final	**(90.852)**	(Z)

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION
(THOUSANDS OF EURO)

rif	ASSETS	12/31/2013	* RESTATED 12/31/2012	* RESTATED 01/01/2012
	CURRENT ASSETS	**215,398**	**237,877**	**235,321**
1.a	Inventories	128,274	144,591	142,134
1.b	Trade Receivables	66,510	72,048	82,997
1.c	Due from tax authorities	4,895	10,517	3,578
1.d	Other current assets	5,746	6,162	3,511
1.e	Cash and cash equivalents	9,973	4,559	3,101
	NON-CURRENT ASSETS	**130,944**	**129,109**	**127,522**
2.a	Goodwill	8,139	8,139	12,789
2.b	Intangible assets	2,149	2,425	2,697
2.c	Property, plant and equipment	90,358	91,625	92,221
2.d	Financial assets	8,951	9,983	10,473
2.e	Deffered tax assets	20,395	16,496	9,081
2.f	Other non-current assets	952	441	261
	TOTAL ASSETS	**346,342**	**366,986**	**362,843**

	LIABILITIES	12/31/2013	12/31/2012	01/01/2012
	CURRENT LIABILITIES	**119,869**	**122,988**	**138,781**
3.a	Due to banks and other sources of finance	45,544	37,757	49,969
3.b	Trade payables	50,655	59,772	62,306
3.c	Due to tax authorities	2,786	2,849	2,324
3.d	Other current liabilities	20,884	22,610	24,182
	NON-CURRENT LIABILITIES	**83,313**	**90,695**	**71,123**
4.a	Employee severance indemnities	6,101	6,384	6,608
4.b.	Deferred tax liabilities	6,806	6,786	7,765
4.c	Provisions for risks and charges	3,994	5,738	3,578
4.d	Due to banks and other sources of finance	64,487	69,212	49,127
4.e	Other non-current liabilities	1,925	2,575	4,045
	TOTAL LIABILITIES	**203,182**	**213,683**	**209,904**
5	**EQUITY**	**143,160**	**153,303**	**152,939**
	Share capital	22,678	22,678	22,678
	Reserves	128,333	129,034	128,710
	Net profit for the year	(7,851)	1,591	1,551
	TOTAL LIABILITIES AND EQUITY	**346,342**	**366,986**	**362,843**

(*) 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.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENTS - IFRS

(THOUSANDS OF EURO)

rif		12/31/2013		12/31/2012	
6.a	**REVENUES FROM SALES AND SERVICES**	**272,971**	**100.9%**	**280,778**	**94.2%**
	Change in inventories of finished products	(11,900)	-4.4%	1,851	0.6%
6.b	Other revenues	8,331	3.1%	6,973	2.3%
11.a	Income from unexpected events	1,061	0.4%	8,315	2.8%
	VALUE OF PRODUCTION	**270,463**	**100.0%**	**297,917**	**100.0%**
7.a	Raw materials	(70,808)	-26.2%	(77,278)	-25.9%
7.b	Services, leases and rentals	(110,478)	-40.8%	(119,600)	-40.1%
	of whic, related party transactions	*(5,438)*	*-2.0%*	*(5,402)*	*-1.8%*
7.c	Personell costs	(70,832)	-26.2%	(71,647)	-24.0%
	Change in inventories of raw materials	(125)	0.0%	521	0.2%
7.d	Other operating expenses	(3,214)	-1.2%	(2,946)	-1.0%
11.a	Costs from unexpected events	(962)	-0.4%	(5,871)	-2.0%
	PRODUCTION COSTS	**(256,419)**	**-94.8%**	**(276,821)**	**-92.9%**
	GROSS OPERATING PROFIT	**14,044**	**5.2%**	**21,096**	**7.1%**
8.a	Amortisation and depreciation	(17,255)	-6.4%	(17,640)	-5.9%
8.b	Provisions and writedowns	(3,634)	-1.3%	(6,502)	-2.2%
11.a	Provisions from unexpected events	–	0.0%	(2,500)	-0.8%
	NET OPERATING PROFIT	**(6,845)**	**-2.5%**	**(5,546)**	**-1.9%**
9.a	Financial income (expense)	(4,020)	-1.5%	(3,698)	-1.2%
	PRE-TAX PROFIT	**(10,865)**	**-4.0%**	**(9,244)**	**-3.1%**
10.a	Income taxes	3,014	1.1%	10,835	3.6%
	NET PROFIT	**(7,851)**	**-2.9%**	**1,591**	**0.5%**
	BASIC AND DILUTED EARNING PER SHARE	**(0.173)**		**0.035**	

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	12/31/2013	* RESTATED 12/31/2012
NET PROFIT (LOSS) FOR THE PERIOD	**(7,851)**	**1,591**
Other components of comprehensive income that will be reclassified later to after-tax profit	**(2,223)**	**(1,149)**
Exchange rate differences from foreign operations	(2,223)	(1,149)
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	**(69)**	**(706)**
Joint-Venture losses- Applying the Equity Method of accounting	(89)	0
(loss) Net Profit from revaluation of defined benefits and plans	20	(706)
COMPREHENSIVE INCOME FOR THE PERIOD	**(10,143)**	**(264)**

(*) 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
CONSOLIDATED FINANCIAL STATEMENT
CASH FLOW STATEMENT - IFRS
(THOUSANDS OF EURO)

(in thousands of Euro)	31st December 2013	2012
A - OPERATIONS		
Net Result of the period	(7,851)	1,591
Amortisation, depreciation and impairments	17,255	22,290
Deferred tax liabilities (assets)	(3,879)	(8,364)
Net change in provisions	(255)	1,160
Cash flow (absorption) from operations prior to changes in working capital	*5,270*	*16,677*
(Increase)/decrease in trade receivables	5,282	10,617
(Increase)/decrease in inventories	14,801	(1,457)
Increase/(decrease) in trade payables	(9,117)	(2,534)
Net change in other assets/liabilities	3,059	(12,301)
Cash flow (absorption)from operations due to changes in working capital	*14,025*	*(5,675)*
Total (A) Cash flow from operations	**19,295**	**11,002**
B - ATTIVITA' DI INVESTIMENTO		
Net investment in tangible and intangible assets	(16,530)	(17,028)
Net investment in financial assets	2	(353)
Exchange difference on tangible and intangible assets	818	256
Total (B) Cash Flow /absorption) from investment activities	**(15,710)**	**(17,125)**
C - FINANCING ACTIVITY		
Increase in capital	-	-
Distribution of dividends		
Other changes in equity		
(Purchase) Sale of treasury shares		
Delivery of new loans	12,736	20,316
Loans repayment	(7,809)	(2,407)
Total (C) Cash Flow (absorption) from financing activities	**4,927**	**17,909**
Opening net cash (indebtedness)	**(15,776)**	**(26,413)**
Change in the translation reserve	**(2,292)**	**(1,149)**
Net change in short-term net cash (indebtedness) (A+B+C)	**8,512**	**11,786**
Closing net cash (indebtedness)	**(9,556)**	**(15,776)**
Supplementary information:		
Interest paid	1,763	2,245
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

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

(THOUSANDS OF EURO)	*Share Capital*	*Share premium reserve*	*Revaluation reserve*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2012	**22,678**	**60,783**	**4,493**	**3,472**	**41,742**	**395**	**18,139**	**1,551**	**153,253**
Balance as of 01.01.2012 restated (*)	**22,678**	**60,783**	**4,493**	**3,472**	**42,056**	**395**	**18,139**	**1,551**	**153,567**
Net result for the period								1,591	1,591
Other comprehensive profit (loss) (**)						(1,855)			(1,855)
Total gains (losses) booked directly to equity						**(1,855)**		**1,591**	**(264)**
Allocation of net profit for year 2011				109	2,068		(626)	(1,551)	
Balance as of 12.31.2012	**22,678**	**60,783**	**4,493**	**3,581**	**44,124**	**(1,460)**	**17,513**	**1,591**	**153,303**
Balance as of 01.01.2013	**22,678**	**60,783**	**4,493**	**3,581**	**44,124**	**(1,460)**	**17,513**	**1,591**	**153,303**
Net result for the period								(7,851)	(7,851)
Other comprehensive profit (loss) (**)						(2,292)			(2,292)
Total gains (losses) booked directly to equity						**(2,292)**		**(7,851)**	**(10,143)**
Allocation of net profit for year 2012				190	3,612		(2,211)	(1,591)	
Balance as of 12.31.2013	**22,678**	**60,783**	**4,493**	**3,771**	**47,736**	**(3,752)**	**15,302**	**(7,851)**	**143,160**

(*) 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

PANARIAGROUP

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

The consolidated 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 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 currency used to draw up the consolidated financial statements for the period 01.01.13 - 31.12.13 (hereafter also referred to as "the consolidated financial statements") is the euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled “Accounting Principles”.

The consolidated financial statements include:

- the consolidated balance sheet as at 31 December 2013, compared with the consolidated 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 consolidated 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 Group management is of the opinion that they are important information for understanding the Group's results for the period:

  - <u>*Gross operating margin*</u>*:* 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;
  - <u>*Net operating margin*</u>*:* this is made up of the pre-tax result before financial income and expenses;
  - <u>*Pre-tax profit (loss)*</u>*:* 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 consolidated statement of comprehensive income for 2013 with comparative figures for the year 2012, presented in accordance with the requirements of IAS 1 revised.

- the consolidated 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;

- A statement of changes in consolidated equity from 01.01.12 to 31.12.13.

- the explanatory notes (with related attachments).

1) GENERAL INFORMATION ON THE GROUP

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

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

The other companies included in the scope of consolidation are:

- **Gres Panaria Portugal S.A.**, with head office in Ilhavo, Portugal, share capital Euro 16,500,000 fully paid-in, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup USA Inc.,** with head office in Delaware, USA and share capital of USD 65,500,000 fully paid-in, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.
- **Lea North America LLC.**, with head office in Delaware, USA, and share capital of USD 20,000 fully paid-in, 100% controlled by Panariagroup USA Inc.
- **Florida Tile Inc.**, with head office in Delaware, USA and share capital of USD 34,000,000 fully paid-in, 100% controlled by Panariagroup USA Inc.
- **Montanari Francesco** S.r.l., with head office in Crespellano, Italy and share capital of Euro 48,000 paid-in, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup Immobiliare S.r.l.**, with head office in Finale Emilia, Italy and share capital of Euro 10,000 paid-in, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.

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

The Group also participates (50%) in a Joint Venture Company (JVC), in the company AGL Panaria, based in Ahmedabad in the Indian state of Gujara, together with AGL India, one of the leading manufacturers in the Indian market.

The scope of consolidation was unchanged with respect to 31.12.12.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements for the year ended 31.12.13 include the financial statements of Panariagroup Industrie Ceramiche S.p.A. and of those companies over which it exercises direct or indirect control, as defined in paragraphs 12 to 17 of IAS 27.
This standard states that control over another enterprise exists when the company has the power to determine its financial and operating policies so that the company can obtain benefits from the other's activity.

Subsidiaries are consolidated from the date on which the Group takes over control and are excluded from the scope of consolidation from the date on which such control ceases to exist.

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

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

The excess value of equity investments over the related portion of equity at the time of acquisition, if any, is allocated firstly to assets and liabilities whose fair values are higher than their book values; any residual amount is booked to goodwill. In accordance with the transitional provisions of IFRS 3, the Group has changed its accounting policy for the Maronagres goodwill as from the transition date (1 January 2004). In other words, starting on this date, the Group has stopped amortising the Maronagres goodwill and now tests it for impairment. The other goodwill has been generated since the transition date and so has never been amortised.

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.

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

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 Group 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 Group.

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 IAS 34.16A(j) for financial instruments and therefore have 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. These amendments have no impact on the Group’s financial statements.
- 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 statements.
- 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. These amendments have no impact on the Group’s financial statements.

• 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 statements.

• 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 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.

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method described in IFRS 3. The purchase cost is determined by the sum of the fair values, as of the transaction date, of the assets acquired, the liabilities incurred or taken over, and the financial instruments issued by the Group in exchange for control of the enterprise acquired, plus the costs directly attributable to the business combination.

The identifiable assets, liabilities and contingent liabilities acquired that comply with the conditions for recognition contained in IFRS 3 are booked at their fair values at the acquisition date, accounting for the tax effect of the difference between their fair and book values.

Any positive difference between the purchase cost and the Group's portion of the fair value of such assets and liabilities is booked as goodwill, if this is justified, and capitalised as an intangible asset. If, after the redetermination of these fair values, the Group's portion of the fair values of the identifiable assets, liabilities and contingent liabilities exceeds the purchase cost, the excess is immediately written off to the income statement, as IFRS 3 does not allow the recognition of negative goodwill.

Minority interests in the acquired enterprise are initially valued at an amount equal to their portion of the fair values of the identifiable assets, liabilities and contingent liabilities.

Goodwill

Goodwill deriving from the acquisition of a subsidiary or joint venture represents the excess purchase cost compared with the Group's portion of the fair value of the subsidiary or joint venture's assets, liabilities and contingent liabilities identifiable at the acquisition date. Goodwill is recognised as an asset if the excess cost paid can be justified as such. It is not amortised, but the value is reviewed annually to ensure that it has not suffered impairment. Impairment losses are booked immediately to the income statement and are not subsequently reinstated.

If a subsidiary is sold, the amount of any goodwill attributable to it is to be taken into account when calculating the disposal gain or loss.

During the first-time adoption of IFRS, the Group elected not to apply IFRS 3 – Business combinations retroactively to acquisitions of companies concluded prior to 1 January 2004; consequently, the Maronagres goodwill, the only goodwill generated by an acquisition prior to the IFRS transition date, was maintained at the previous value determined according to Italian GAAP, based on prior verification and recognition of any impairment.

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; in the absence of specific indications, for software this is considered to be 5 years.

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 a consolidated 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.

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 Group's product development efforts are only capitalised if all of the following conditions are satisfied:

- the asset is identifiable (e.g. software or new processes);
- it is probable that the asset will 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 over their estimated useful life.

In the absence of specific indications, for trademarks and patents 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 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.

Impairment losses

At each balance sheet date, the Group reviews the book value of its tangible and intangible assets for any signs that these assets may have suffered a loss in value. If there are signs that this is the case, the recoverable value of such assets is estimated so as to determine the amount of the write-down. When it is not possible to estimate the recoverable value of an asset individually, the Group makes an estimate of the recoverable value of the cash generating unit (CGU) to which the asset belongs.

Intangible assets with an indefinite useful life, which refer exclusively to goodwill, are tested annually for impairment and any other time that there are signs of a possible loss in value.

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.

If a write-down is no longer justified, the book value of the asset (or of the CGU), except for goodwill, is increased to the new value deriving from an estimate of its recoverable value, though this cannot be more that the net book value that the asset would have had if an impairment loss had not been recognised. Write-backs are booked to the income statement immediately, unless the asset was booked at revalued cost as the deemed historical cost on the transition to IFRS, in which case the write-back is booked to the related revaluation reserve.

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 Group 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 consolidated 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 Group 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 Group's activities are primarily exposed to financial risks arising from changes in exchange rates. In certain cases, the Group 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 income in the period they arise.

Provisions

Provisions are recognised in the financial statements when the Group has a clear obligation as the result of a past event and it is probable that 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 Group 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 Group'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 are deducted directly from equity: 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

The financial statements of the individual Group companies are prepared in the currency of the main economic environment in which they operate (functional currency). For consolidation purposes, the financial statements of each foreign entity are expressed in euro, which is the functional currency of the Group and the currency in which the consolidated financial statements are presented. In preparing the financial statements of the individual entities, transactions in currencies other than the euro are initially booked at the 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.

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

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

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

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

	31/12/2013	31/12/2012
Average exchange rate for the period	1.3281	1.2848
Current exchange rate at the balance sheet date	1.3791	1.3194

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

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

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

Goodwill – Estimate of the degree of recoverability

The Group is showing various amounts of goodwill that arose on company acquisitions.
These amounts of goodwill are not amortised, but tested at least once a year for impairment, in accordance with the provisions of IAS 36, based on forecasts of expected cash flows over coming years. In the event that future business and market scenarios differ from those assumed when preparing the forecasts, the value of goodwill could be subject to write-down, or a write-down that differs from that already recorded.

Inventory valuation and provision for slow-moving and obsolete goods

The Group values its inventories at the lower of cost and market (estimated realisable value), based on evaluations of market trends and making assumptions regarding the future realisability of the value of inventories. If effective market conditions turn out to be less favourable than those foreseen by the Group, the value of inventories may have to be written down.

Provision for bad and doubtful accounts

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

Deferred tax assets

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

Contingent liabilities

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

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

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

Related parties

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

<u>Financial risks and derivatives</u>

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

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

a) Exchange rate risk

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

required by IFRS 7.

b) Credit risk

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

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

c) Interest rate risk

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

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

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

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group's objective is to ensure that it can fulfil all of its financial obligations at any moment in time, optimising its recourse to external financing. The Group maintains a certain number of lines of credit (see section 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.

3) OTHER INFORMATION

Presentation of the consolidated financial statements

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

Subsequent events

There are no matters worth mentioning.

4) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. CURRENT ASSETS

1.a. Inventories

As at 31.12.13, this is composed of the following:

	31/12/2013	31/12/2012
Raw, ancillary and consumable materials	11,576	12,496
Work in progress	1,693	1,686
Finished products	125,590	138,946
Buildings held for sale	3,609	4,061
Provision for obsolescence	(14,194)	(12,598)
	128,274	**144,591**

The overall value of inventories recorded a net decrease (down Euro 16.3 million, equal to 11.3%) 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 are shown net of a provision for obsolescence of Euro 13,593 thousand at 31.12.13 (Euro 12,077 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 Group operates.

Inventories include Euro 3,109 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 consist of the following:

	31/12/2013	31/12/2012
Trade receivables	72,291	77,573
Provision for bad and doubtful accounts	(5,781)	(5,525)
	66,510	**72,048**

Gross trade receivables are down by around 7% compared to 31.12.12, with this being proportionally greater than the reduction in revenue. This change is mainly attributable to the significant drop in turnover recorded in the Italian and Portuguese markets, which are characterised by very long collection times.

"Trade receivables" include around Euro 5.0 million in amounts over 120 days past due (corresponding to about 6.9% of total receivables); the provision for bad and doubtful accounts, of Euro 5,8 million, reflects an estimate of the recoverable value of receivables, based on the information available at the time of preparing the consolidated financial statements.

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

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	1,528	7,445
Advance tax payments	846	765
Other amounts due from tax authorities	2,521	2,307
	4,895	**10,518**

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

"Advance tax payments" refer to the balance between the advance payments made and income taxes due for the period. As from the 2008 tax return (for 2007 income), the Parent Company Panariagroup Industrie Ceramiche S.p.A. 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 income tax (IRES) credit or debit is therefore a receivable or payable to the parent company which, in its role as tax holding company, handles all dealings with the tax authorities.

The item “Other amounts due from tax authorities” 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)

These receivables are due from the ultimate parent Finpanaria S.p.A. as a result of inclusion in the tax group specified above; the receivable, of a tax nature, was classified under this caption.

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

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	360
Rebates from suppliers and credit notes to be received	87	304
Receivables due from employees and third parties	582	643
IRB – Current portion	614	641
Earthquake grants receivable	1,639	-
Other grants to be received	329	-
Receivables due from insurance companies	-	1,924
Receivables for Energy Efficiency Certificates	424	-
Receivables due from energy income	430	224
Other	277	132
Total other current receivables	**4,951**	**5,017**
- prepaid rents	66	407
- accrued and prepaid insurance premiums	139	196
- other accrued income and prepaid expenses	590	542
Total current accrued income and prepaid expenses	**795**	**1,145**
	5,746	**6,162**

The item “IRB – Current portion” relates to the principal element of the 20-year *Industrial Revenue Bond* that matures within 12 months, as explained in the section on financial assets.

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 not collected at said date; by contrast, 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	9,836	4,424
Cheques	5	9
Cash and equivalents on hand	132	126
	9,973	**4,559**

The changes in financial position in 2013, compared with 2012, are analysed in the consolidated cash flow statement shown previously.

NON-CURRENT ASSETS

2.a. Goodwill

"Goodwill" of 8,139 thousand relates to goodwill recognised on the acquisition of Gres Panaria Portugal and Montanari Francesco S.r.l., net of impairment.

In particular, with respect to Gres Panaria Portugal, the value of goodwill at 31.12.13 is Euro 7,789 thousand and relates to:

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

The above amounts are stated net of impairment recorded in 2012 of Euro 4,300 thousand based on the outcome of impairment testing performed at the year end with reference to the Cash Generating Unit consisting of the Portuguese company resulting from the merger of Maronagres Comercio e Industria Ceramica S.A. and Novagres Industria de Ceramica S.A.

As regards the goodwill relating to Maronagres, it derives from an acquisition that was carried out prior to the IFRS transition date. Its book value is therefore the amount resulting from the application of Italian GAAP as of that date (so-called "deemed cost").

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

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

The value of goodwill relating to Montanari Francesco S.r.l. at 31.12.13 is Euro 350 thousand; this amount was generated as follows:

- Euro 900 thousand relates to the excess price paid for the acquisition of Montanari Francesco S.r.l. over the Group's portion of its equity, adjusted to take account of the fair value of this company's assets and liabilities on the acquisition date;
- The above amount was then reduced by write-down for impairment totalling Euro 550 thousand, of which Euro 200 thousand was recorded in 2009 and Euro 350 thousand in 2012, as a result of impairment testing.

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

In terms of guarantees obtained upon acquisition, in the case of the former Maronagres, any liabilities arising from events that took place prior to the Group's acquisition are covered by the following guarantees given by the sellers to the Group:

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

  Both the above guarantees were extended during the year to 31/12/2014.

Impairment Testing

As stated earlier in the section on Accounting Principles, at least once a year, even if there is no indicators of impairment, but always whenever any critical indications of impairment arise, the Group performs impairment tests as required by IAS 36 in order to verify the recoverability of the goodwill recorded in the consolidated financial statements. In the presence of indicators of potential criticalities, the recoverability check is extended to the entire residual value of the property, plant and equipment and intangible assets recorded in the consolidated financial statements.

As part of the 2013 financial statement closure process, impairment tests were performed as required by IAS 36, in particular, the Company identified the Cash Generating Units ("CGU") that represent the smallest identifiable grouping capable of independently generating cash flows; these CGUs correspond to the business units that make up the Group.

The CGUs are consistent with the units identified for the previous financial year; furthermore, it should be noted that the business units correspond to individual companies, as shown by the table.

The Company tested the recoverability of the value of net capital employed recorded in the Group's consolidated financial statements and attributed to each CGU, to which were added allocations made at consolidation level.
With respect to testing for the Panariagroup S.p.A. CGU, net capital employed was considered net of the carrying value of the equity investments.

The impairment test was performed assuming the value in use of each of these to be their recoverable value, in consideration of the fact that it is not possible to reliably establish their fair value net of selling costs. Value in use was determined as the present value of estimated future cash flow to be generated from the continuing use of the assets pertaining to the CGU, being the sum of cash flow expected during the period of the plan and the terminal value attributable thereto (enterprise value).

For the purposes of the verification of the recoverability of the amounts recorded, the enterprise value was compared against the value of net capital employed recorded in the Group's consolidated financial statements (sum of the book value of equity and net financial indebtedness), to which were added the allocations made at consolidation level.
The amounts, by individual CGU, subjected to testing for recoverability are as follows (in thousands of Euro):

	Net capital employed	*Goodwill - Allocation of consolidated financial statements*	*Equity investments*	**Total**
Panariagroup S.p.A.	209,033	-	(89,861)	119,172
Gres Panaria Portugal	44,575	13,957	-	58,532
Panariagroup USA and subsidiaries	46,385	(51)	-	46,334
Montanari Francesco S.r.l.	535	349	-	884

The value in use of each CGU was estimated by applying the UDCF (“Unlevered Discounted Cash Flow”) method to the cash flows included in the 2014-2018 Business Plan approved by the Board of Directors of the Parent Company on 13.03.14, while the impairment process was approved by the Board of Director on 15.11.13.
A terminal value was calculated at the end of the explicit forecast period, by applying a perpetuity. For the determination of the perpetuity, use was made of operating income net of taxation (Net operating profit Less Adjusted Tax - NOPLAT) of the last year of the business plan as management estimates this to be a long term "normalised" flow.

The growth rate used for the determination of the terminal value was prudently taken to be zero, in line with the assumption made for the tests performed in prior years.
The discount rate, or WACC, used to discount expected cash flows from all the CGUs subjected to testing 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 Group 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 the Company's 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 light of the current situation in the ceramics industry. The directors have prepared a business plan for the years from 2014 to 2018 with reference, in respect of forecast turnover for the period covered by the business plan, to trends defined by the most recent studies of the outlook for the industry published by "Confindustria Ceramica" and by "Cresme", as well as to the January 2014 country report by the Economist Intelligence Unit in respect of forecasts of inflation dynamics in the main countries in which the Group operates and in the timescale of reference; furthermore, no assumption was made for any additional efficiency of the current productive and organisational structure of the Group. Lastly, as mentioned previously, the tests were carried out considering a zero rate of further growth at the end of the explicit forecast period.

No impairment losses arose from the test performed.

Set out below are comments on the results of the testing for each CGU.

Panariagroup Industrie Ceramiche S.p.A.

On the basis of the above parameters, the enterprise value of Panaria S.p.A. is some Euro 130.6 million, against the company's net capital employed as per the consolidated financial statements, net of the carrying value of equity investments, of 119.2 million.

Gres Panaria Portugal S.A.

On the basis of the above parameters, the enterprise value of Gres Panaria Portugal is Euro 66.3 million, against the company's net capital employed as per the consolidated financial statements, inclusive of the allocation of consolidation differences, of 58.5 million.

Panariagroup USA and subsidiaries

On the basis of the above parameters, the enterprise value of Panariagroup USA is USD 151.4 million, against the company's net capital employed as per the consolidated financial statements of USD 63.9 million.

Montanari Francesco S.r.l.

On the basis of the above parameters, the enterprise value of Montanari Francesco S.r.l. was around Euro 1.4 million, compared to the company's net capital employed of Euro 0.9 million.

Impairment - Sensitivity Analysis

The following changes were recorded in the Enterprise Value of the CGUs, upon a change in the WACC; in particular, a comparison between the WACC used and the one used in the previous year is shown below.

Amounts in millions of Euro	***WACC 7.8%***	***WACC 8.3%***
Panaria S.p.A.	*130.6*	*122.3*
Gres Panaria	*66.0*	*62.3*
Panariagroup USA (*)	*151.4*	*142.8*
Montanari	*1.4*	*1.3*

(*) Amounts in millions of USD

Furthermore, it should be noted that the enterprise value almost corresponds to net working capital inclusive of allocations made on consolidation (prior to write-downs recorded) using the WACC rates shown in the following table:

	WACC
Panaria S.p.A.	*8.5%*
Gres Panaria	*8.8%*
Panariagroup USA	*>10.0%*
Montanari	*>10.0%*

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

Amounts in millions of Euro	***Plan EBITDA***	***EBITDA -5%***
Panaria S.p.A.	*130.6*	*127.6*
Gres Panaria	*66.0*	*61.9*
Panariagroup USA (*)	*151.4*	*142.7*
Montanari	*1.4*	*1.3*

(*) Amounts in millions of USD

Furthermore, it should be noted that the enterprise value would almost correspond to net working capital inclusive of allocations made on consolidation by decreasing EBITDA according to the percentages indicated in the following table:

	EBITDA var.
Panaria S.p.A.	*11.0%*
Gres Panaria	*9.4%*
Panariagroup USA	*>20.0%*
Montanari	*>20.0%*

It is worth pointing out that assessing the recoverable value of the cash generating units requires management to use its judgment in making estimates, which means that the Company cannot guarantee that the assets booked in the consolidated financial statements will not lose further value in the future. The circumstances and events that might result in further impairment will be monitored constantly by the Company.

In addition, based on the recommendations of the Bank of Italy/CONSOB/ISVAP Document No. 4 of 3 March 2010, we think it is worth pointing out that the directors do not consider the market capitalisation based on current stock market prices to be a true reflection of the Group's value, as it is lower than consolidated net equity at 31.12.13. The directors confirm that the value of the Group's assets is as shown in the financial statements, so this situation is not considered an indicator of impairment.

The directors made these considerations based on the following:

- the limited value of the float (less than 30%) means that the value of the shares on the stock exchange does not reflect the economic value of a majority stake and is particularly exposed to fluctuations in value, including significant, even with extremely low volumes of trade.
- the current value of the Company's capitalisation is affected by the unfavourable situation on stock markets in general and the not exactly brilliant performance of the ceramics industry in the last two years, as well as by the Company's policy not to distribute dividends at the present time.

Furthermore, in order to support these considerations, as suggested by the document prepared by the Organismo Italiano di Valutazione (“OIV”) in relation to "Impairment testing in the context of financial and real crisis” when the market capitalisation is lower than the book value of equity, the directors have performed further so-called second level impairment testing relating to the entire Group.

To this end, the Company has considered the present value of future cash flows expected to be generated from the continuing use of the assets of all of the CGUs and from the terminal value attributable thereto. From this value (enterprise value), consolidated net financial indebtedness has been subtracted to arrive at the determination of the so-called equity value. In order to verify the recoverability of recorded values, the equity value was compared to the consolidated equity of Panariagroup.

The parameters assumed for this test were the same as those stated previously (2014 - 2018 business plan approved by the Parent Company's Board of Directors on 13.03.14, WACC equal to 7.8%, growth rate of the terminal value of 0%) and the test has confirmed the recoverability of the amounts recorded in the consolidated financial statements.

2.b. Intangible assets

"Intangible assets" at 31.12.13 amount to Euro 2,149 thousand, which is lower than the figure of Euro 2,425 thousand reported at 31.12.12.

Changes during the year can be summarised as follows:

	2013	2012
Beginning Balance	**2,425**	**2,697**
Additions	551	653
Retirements	(1)	-
Depreciation charge	(774)	(901)
Exchange differences for foreign subsidiaries	(52)	(24)
Ending Balance	**2,149**	**2,425**

Increase of the period are mainly due to acquisition and software development.

The changes during the period are reported in an attachment.

2.c. 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	26,024	25,724
Plant and machinery	48,268	50,640
Equipment and other assets	13,126	13,976
Construction in progress	2,940	1,285
	90,358	**91,625**

Changes during the year can be summarised as follows:

	2013	2012
Beginning Balance	**91,625**	**92,221**
Additions	16,326	16.887
Retirements	(344)	(212)
Depreciation charge	(16,482)	(16.739)
Retirements due to earthquake	-	(300)
Exchange differences for foreign subsidiaries	(767)	(232)
Ending Balance	**90,358**	**91.625**

The changes during the period are reported in an attachment.

Expenditure on property, plant and equipment during the period came to around Euro 16.3 million and refers, for roughly Euro 10.5 million to investments in the Italian Business Unit, for Euro 3.2 million to investments in the Portuguese Business Unit and for roughly Euro 2.6 million to investments in the US Business Unit.

"Land and buildings" are represented mainly by the buildings shown in the financial statements of the Portuguese subsidiary Gres Panaria Portugal S.A.

Following the property spin-off in 2004, the buildings in which Panariagroup Industrie Ceramiche S.p.A. conducts its business are rented, being owned by Immobiliare Gemma S.r.l. (a related party).

Florida Tile Inc. has been operating out of the Lawrenceburg (Kentucky) plant, which it uses under an operating lease that expires in 2030; the annual rent is USD 1,575 thousand, without any purchase option at the end of the contract.

2.d. Financial assets

This caption comprises:

	31/12/2013	31/12/2012
Industrial Revenue Bond	8,593	9,623
Investment in Indian JV	352	356
Other	6	4
	8,951	**9,983**

The “Industrial Revenue Bond” relates to a 20-year bond (IRB) issued by the County of Anderson, Kentucky (“County”).

This forms part of a wider package of tax incentives granted by the County in relation to the major investment in the Lawrenceburg factory, operated by the subsidiary Florida Tile Inc. (defined by contract as the "Porcelain Project").

In particular, the purpose of the IRB is to save property tax on the newly-acquired plant, as part of a transaction involving two distinct and exactly matching operations:

- the subscription by Panariagroup USA to a twenty-year bond, issued by the County at an interest rate linked to LIBOR;
- the purchase of ownership of the "Porcelain Project" by the County and grant of a twenty-year finance lease at the same rate as the Bond to Florida Tile Inc, with a redemption value of USD 1 at the end.

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

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

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

The decrease in value of the Industrial Revenue Bond compared to 31.12.12 is due to the repayment of the annual instalment of Euro 641 thousand (USD 850 thousand) and to an exchange loss of Euro 389 thousand arising from translation at the year-end exchange rate.

2.e Deferred tax assets

Deferred tax assets are composed as follows:

	31/12/2013	31/12/2012
Deferred tax assets:		
- taxed provisions	5,897	5,018
- tax loss carryforwards	12,445	11,429
- for public grant	807	-
- for different exchange rates	226	-
- for ACE not deducted	102	-
- other	918	49
Deferred tax assets	**20,395**	**16,496**

Deferred tax assets on “tax loss carryforwards” refer, for Euro 5.8 million, to tax losses relating to the subsidiary Florida Tile Inc., for Euro 5.9 million to Panariagroup Industrie Ceramiche and for Euro 0.7 million to Gres Panaria Portugal.

With respect to this these deferred tax assets, the business plans prepared and approved by Group management, show future results that will allow their recovery.

The recoverability of the deferred tax assets is thus subject to the ability of the aforementioned companies to produce, in the medium term, positive results in line with forecasts included in the business plans approved by the Group's directors on 14.03.14.

2.f. Other non-current assets

This line item comprises:

	31/12/2013	31/12/2012
Guarantee deposits for utilities	172	167
Loans due from third parties	380	200
Other	400	74
Total other non-current receivables	**952**	**441**
Total non-current accrued income and prepaid expenses	**-**	**-**
	952	**441**

"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 receivables" includes Euro 250 thousand for deposits on leases of the stores of the subsidiary Florida Tile.

5) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. 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	7,926	12,843
Export advances	10,400	7,002
Long-term loans	25,404	16,780
Leases	614	642
Other loans	1,200	490
	45,544	**37,757**

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

The Group's total borrowing facilities granted by banks at 31.12.13 amounted to Euro 112.0 million, of which Euro 18.3 million had been drawn down at that date.

"Long-term loans" include the current portion of unsecured loans obtained by the Parent Company between 2006 and 2013. These loans are discussed in more detail in the section entitled "Due to banks and other sources of finance" under non-current liabilities.

"Leases" of Euro 614 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

"Other loans" of Euro 1,200 thousand at 31.12.13 relate to a short-term loan obtained by Gres Panaria Portugal from a leading Italian bank.

Like in previous years, the Group has not carried out any factoring or securitisation transactions in 2013.

3.b. Trade payables

The trend in trade payables is as follows:

	31/12/2012	31/12/2012
Trade payables	50,655	59,772

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. A decrease was recorded over the same period in the previous year, due mainly to the considerable decrease in production.

3.c. Due to tax authorities

This caption comprises:

	31/12/2013	31/12/2012
Withholding tax	2,211	2,466
Income taxes	404	226
Other	171	157
	2,786	**2,849**

3.d. Other current liabilities

At 31.12.13, this caption comprises:

	31/12/2013	31/12/2012
Due to social security institutions	2,575	3,369
Due to employees	5,899	5,923
Due to customers	3,834	4,076
Due to agents	6,367	7,658
Financial derivatives – negative fair value	127	222
Other	583	572
Total current payables	**19,385**	**21,820**
Deferred income from capital grants	44	59
Accrued interest expense	130	128
Deferred income from earthquake insurance payouts	1,015	486
Other	309	117
Total current accrued expenses and deferred income	**1,498**	**790**
	20,884	**22,610**

"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.

4. 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	**6,101**	**6,384**

The principal technical bases used in this calculation are as follows:

Demographic assumptions

Retirement: 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	**6,384**
Charge to the income statement	209
Charge to "Other Comprehensive Income"	(20)
Portion paid out during the year	(472)
Employee severance indemnities at 31/12/2013	**6,101**

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 consolidated financial statements 31/12/2012**	**Balance at 31/12/2012 Restated**	**Difference**
Deferred tax liabilities	6,935	6,786	(149)
Employee severance indemnities	5,843	6,384	541
Equity	153,695	153,303	(392)

4.b. Deferred tax liabilities

Details of deferred tax liabilities are provided below:

	31/12/2013	**31/12/2012**
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	2,771	3,023
- valuation of severance indemnities according to IFRS	86	98
- valuation of agents' termination indemnities according to IFRS	430	541
- valuation of inventories	1,511	2,408
- lease-back	253	298
- exchange differences on valuation	-	244
- accelerated depreciation	1,721	127
- other	34	47
Deferred tax liabilities	**5,212**	**6,786**

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 2,771 thousand) refer to the recognition of acquired company assets at fair value in the consolidated financial statements, net of accumulated depreciation on the acquisition date.

Deferred tax for accelerated depreciation refers to the temporary difference between book value and fiscal value of the depreciation in the subsidiary Florida Tile.

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
Provision for tax risks	485	835
Other provisions	843	493
	3,994	**5,738**

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.

“Provisions for tax risks” include allocations on contingent tax liabilities; the balance as at 31.12.13 refers entirely to the risk connected with a dispute with the Portuguese tax office and reflects the best estimate of expenses to be incurred on the basis of the analysis of irregularities received and the likelihood of the defensive arguments made by the Directors, with the help of the Group's tax consultants, being upheld.

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 Parent Company's tax years from 2009 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements at 31.12.13.

At present, the Group 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	52,605	54,483
Assisted loans	3,289	5,106
IRB finance lease	8,593	9,623
	64,487	**69,212**

"Long-term loans" relate to the portion beyond 12 months of medium-long term loans taken out mainly by the Parent Company at floating rates tied to Euribor.

Panariagroup USA took out a new loan in 2013 for a total USD 8 million, secured by the plant and machinery of Florida Tile and the Parent Company took out two new loans totalling Euro 5.2 million.

There are no guarantees in favour of the lender for all other loans.

The "IRB finance lease" relates to the Industrial Revenue Bond operation, detailed in note "2.d Financial assets", and associated with the package of tax incentives obtained for the major investment in the Lawrenceburg factory of Florida Tile Inc. As mentioned previously in connection with the Bond, the decrease in its amount reflects the repayment of principal during 2013 and the exchange-rate effect deriving from the translation to Euro of the original amounts (denominated in dollars) using the closing rate of exchange.

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

	Long-term loans	Leases	IRB	Total
12 months	**25,404**	**614**	**(614)**	**25,404**
2016	24,296	614	(614)	24,296
2017	14,617	614	(614)	14,617
2018	9,092	614	(614)	9,092
2019	6,561	614	(614)	6,561
2020	774	614	(614)	774
2021	528	614	(614)	528
2022	26	614	(614)	26
2023	-	614	(614)	-
2024	-	614	(614)	-
Beyond 10 years	-	3,067	(3,067)	-
Long-term	**55,894**	**8,593**	**(8,593)**	**55,894**
Financial payables	**81,298**	**9,207**	**(9,207)**	**81,298**

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

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
Due to tax authorities beyond 12 months	325	-
Accrued rent - Lawrenceburg	457	434
Other	148	169
	1,925	**2,575**

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".

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

"Other" includes commitments taken by Florida Tile Inc. to carry out environmental monitoring at its own expense for the next 25 years; these have been treated to all effects as liabilities acquired as part of the acquisition.

5. EQUITY

Equity consists of:

	31/12/2013	31/12/2012
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,771	3,581
Translation reserve	(3,752)	(754)
Other reserves and retained earnings	63,038	61,323
Net profit (loss) for the year	(7,851)	1,591
	143,160	**153,695**

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

To date, no stock option plans have been granted.

The main items making up equity and the associated changes are discussed below.

Share capital

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

Share premium reserve

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

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

Revaluation reserves

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

Legal reserve

The legal reserve reported in the consolidated financial statements reflects the corresponding reserve recorded by Panariagroup Industrie Ceramiche S.p.A. It increased during the period thanks to the allocation of 5% from the 2012 net profit.

Translation reserve

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

Other reserves and retained earnings

The other equity reserves are made up as follows:

	31/12/2013	31/12/2012
Extraordinary reserve	46,872	43,260
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings/losses and other reserves	16,703	18,600
	63,038	**61,323**

The *Extraordinary reserve* has increased by Euro 3,612 thousand following the allocation of part of the Parent Company's 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.

Treasury shares

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 the previous year.

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

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.

"Retained earnings (accumulated losses) and other reserves" of Euro 16,703 thousand refer principally to profits made by subsidiaries after the preparation of the first set of consolidated financial statements and not distributed. No deferred taxes have been provided on these reserves, as no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

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

At 31.12.13 no guarantees have been given in favour of entities outside of the scope of consolidation.

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

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales

The Group's sales revenues are analysed by geographical area below:

	31/12/2013	*31/12/2012*
Italy	69,307	72,484
Abroad	206,432	211,556
(Customer rebates)	(2,768)	(3,262)
	272,971	**280,778**

Revenues from sales decreased by 2.8%, falling from Euro 280,778 thousand at 31.12.12 to Euro 272,971 thousand at 31.12.13 (-Euro 7.8 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)	3,284	4,009	(725)
Gains on the sale of property	336	171	165
Out-of-period income	762	743	19
Compensation for damages	278	19	259
Grants	472	140	332
Energy income	1,742	791	951
Capitalisation of own work	383	176	207
Other	1,074	924	150
	8,331	**6,973**	**1,358**
% of Value of production	***3.1%***	***2.8%***	**0.3%**

"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	% of V.O.P.	31/12/2012	% of V.o.P.
Raw materials	34,821	12.9%	39.098	13.1%
Finished products	25,559	9.5%	26.943	9.0%
Packaging	9,133	3.4%	9.802	3.3%
Price lists/Catalogues	998	0.4%	1.100	0.4%
Other	297	0.1%	335	0.1%
	70,807	**26.2%**	**77.278**	**25.9%**

The significant decrease in "raw materials" (for Euro 6.5 million) is related to the reduction in sq.m, as already described in Directors' Report; however, the impact on the value of production is substantially aligned to 2012.

7.b. Services, leases and rentals

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

	31/12/2013	% of V.O.P.	31/12/2012	% of V.o.P.
Property rental	8,962	3.3%	9,000	3.0%
Rent of other fixed assets	2,334	0.9%	2,155	0.7%
Commissions	12,923	4.8%	14,887	5.0%
Utilities	27,869	10.3%	30,453	10.2%
Commercial expenses and advertising	7,587	2.8%	8,144	2.7%
Sub-contract work	8,489	3.1%	11,587	3.9%
Maintenance	7,388	2.7%	8,345	2.8%
Transportation	16,606	6.1%	16,468	5.5%
Industrial services	5,767	2.1%	5,575	1.9%
Directors' and statutory auditors' fees	1,105	0.4%	1,183	0.4%
Consulting fees	3,697	1.3%	4,049	1.4%
Insurance	1,233	0.5%	1,152	0.4%
Other	6,518	2.4%	6,602	2.2%
	110,478	**40.8%**	**119,600**	**40.1%**

"Property rental" mainly includes:

- rents of Euro 5,409 thousand that Panariagroup Industrie Ceramiche S.p.A. pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the company carries on its business. The rent contract covers a contractual period of eight years (with tacit renewal on the first expiry for another eight years), for an annual rent initially set at Euro 4,500 thousand, revalued each year according to ISTAT statistics. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

- The rents that Florida Tile Inc. pays for the land and building of its plant in Lawrenceburg, its head office and the premises used as branches for the retail sale of finished products amount in total to Euro 3,327 thousand.

7.c. Personnel costs

Personnel costs fell from Euro 71,647 thousand in the year ended 31.12.12 (24.0% of value of production) to Euro 70,832 thousand in the year ended 31.12.13 (26.2% of value of production).

Personnel costs can be broken down as follows:

	31/12/2013	31/12/2012
Wages and salaries	53,521	53,961
Social security contributions	14,505	14,902
Severance indemnities and other funds	2,278	2,220
Other personnel costs	528	564
	70,832	**71,647**

It should be noted that personnel costs include around Euro 500 thousand in extraordinary expenses connected with a significant restructuring operation performed at Gres Panaria Portugal.

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

	31/12/2013	31/12/2012
Managers	33	31
Supervisors and white collar workers	639	651
Foremen and blue collar workers	917	945
	1,589	**1,627**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2013	% of V.o.P.	31/12/2012	% of V.o.P.
Out-of-period expenses	353	0.1%	191	0.1%
Gifts	26	0.0%	47	0.0%
Trade association fees	106	0.0%	92	0.0%
Losses on disposals	236	0.1%	268	0.1%
Indirect taxes	1,226	0.5%	1,012	0.4%
Office materials	489	0.2%	640	0.2%
Other	778	0.3%	696	0.2%
	3,214	**1.2%**	**2,946**	**1.0%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Amortisation/depreciation fell slightly compared to 2012, down from Euro 17,640 thousand as at 31 December 2012 to Euro 17,255 thousand as at 31 December 2013.

8.b. Provisions and impairments

The caption “Provisions and impairments", amounting to Euro 3,634 thousand, includes the write-downs of receivables for Euro 1,224 thousand, allocations to the provision for slow-moving and obsolete goods for Euro 1,413 thousand, allocations for agents' termination indemnities of Euro 321 thousand, and other allocations to provisions for risks and charges totalling Euro 676 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2013	31/12/2012
Interest on short-term loans	(489)	(615)
Interest expense on medium/long-term loans	(1,274)	(1,630)
Financial expense on severance indemnity liability	(194)	(255)
Fair value losses on derivatives	-	(82)
Other	(1,419)	(1,177)
Total financial expense	**(3,376)**	**(3,759)**
Bank interest income	36	8
Interest on receivables	102	82
Fair value gains on derivatives	95	-
Other	-	-
Total financial income	**233**	**90**
TOTAL FINANCIAL INCOME AND EXPENSE	**(3,143)**	**(3,669)**
% of Value of production	*-1.2%*	*-1.2%*
Exchange losses	(1,535)	(2,102)
Exchange gains	1,142	2,078
TOTAL EXCHANGE GAINS AND LOSSES	**(393)**	**(24)**
% of Value of production	*-0.1%*	*-0.0%*
Financial losses on discounting	(354)	-
Financial gains on discounting	-	(5)
DISCOUNTING GAINS (LOSSES)	**(354)**	**(5)**
% of Value of production	*-0.1%*	*-0.0%*
Impairment losses on equity investments in Joint Ventures	(130)	-
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	**(130)**	**-**
% of Value of production	*-0.1%*	*-0.0%*
Total financial income (expense)	**(4,020)**	**(3,698)**
% of Value of production	**-1.5%**	**-1.2%**

"Other" mostly refers to financial expenses associated with early payment discounts given to customers.

Financial income and expense - Sensitivity analysis

As previously stated in the section on "Financial risk", the Group is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.
The following is a sensitivity analysis to show the impact on the 2012 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	Higher (Lower) Profits € million
- 2.00%	+1.9
- 1.00%	+1.0
- 0.50%	+0.5
+ 0.50%	-0.5
+ 1.00%	-1.0
+ 2.00%	-1.9

Exchange rates (Eur/USD)

Rate	Higher (Lower) Profits € million
1.20	+4.5
1.30	+0.8
1.40	-2.3
1.50	-5.1

* 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 3,014 thousand.

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

THEORETICAL TAX RATE - ITALIAN TAXATION

				Theoretical tax	Theoretical "Tax Rate"
A	Pre- Tax profit	(11,561)			
B	Personnel costs	43,766			
C	Net finance costs	2,756			
D	IRAP deductions for tax wedge	16,535			
A	Theoretical taxable income for IRES purpose	(11,561)		(3,179)	27.50%
A+B+C+D	Theoretical taxable income for IRAP purpose	18,426		719	3.90%
CF1	Theoretical Tax Charge - ITALIAN TAXATION			(2,461)	21.28%

THEORETICAL TAX RATE - PORTUGUESE TAXATION

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRC purpose	(3,419)	(906)	26.50%
CF2	Theoretical Tax Charge - PORTUGUESE TAXATION		(906)	26.50%

THEORETICAL TAX RATE - US TAXATION

			Theoretical tax	Theoretical "Tax Rate"
A	BTheoretical taxable income for Federal + State Taxes purposes	4,103	1,600	39.00%
CF3	Theoretical Tax Charge - US TAXATION		1,600	39.00%

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	Theoretical Tax Charge - TOTAL	(1,767)	16.26%
	Tax incentive for Portoguese investments	(540)	4.97%
	No taxation of earthquake grants	(349)	-1.42%
	IRAP deductibility personnel costs	(448)	4.12%
	Difference	89	-0.82%
	ACTUAL tax charge	(3,014)	27.74%

The "positive" balance of taxes is due mainly to the recognition of deferred tax assets on tax losses generated by Panariagroup Industrie Ceramiche S.p.A. and Gres Panaria Portugal S.A..

A tax credit of Euro 540 thousand was also obtained on investments carried out in 2013 in Portugal.

As highlighted in the section "Deferred tax assets", the business plans prepared and approved by Group management, show future results that will allow their recovery.

11. 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, the basic loss per share of Euro 0.173 (profit of Euro 0.035 per share as at 31.12.12) is disclosed at the foot of the income statement.

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 worth mentioning 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 Group'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 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".

RELATED PARTY TRANSACTIONS

Panariagroup's related parties are:

Finpanaria S.p.A.– Ultimate Parent Company, which does not exercise the management and 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.
.
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	0.02%	0.02%	0.57%	1.18%
Costs	2.01%	1.99%	50.05%	103.19%

* 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.

ATTACHMENTS

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

- Statement of changes in intangible assets and goodwill from 01.01.12 to 31.12.13
- Statement of changes in property, plant and equipment from 01.01.12 to 31.12.13
- Statement of changes in financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations
- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Sassuolo, 13.03.14

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 01.01.12 to 31.12.13

Panariagroup - Consolodated financial statements

Statement of changes in intangible assets and goodwill
from 1/1/2012 to 12/31/2013
(in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2012	**2,697**	**-**	**2,697**	**12,789**
Net increases	653	-	653	-
Net drecreases and impairment	0	-	0	(4,650)
Amortisation	(901)	-	(901)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidiaries	(24)	-	(24)	-
Balance at 12/31/2012	**2,425**	**-**	**2,425**	**8,139**
Net increases	551	-	551	-
Net drecreases and impairment	(1)	-	(1)	-
Amortisation	(774)	-	(774)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidiaries	(52)	-	(52)	-
Balance at 12/31/2013	**2,149**	**-**	**2,149**	**8,139**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 01.01.12 to 31.12.13

Panariagroup - Consolodated financial statements

Statement of changes in property, plant and equipment
from 1/1/2012 to 12/31/2013
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2012	**26,569**	**50,580**	**13,563**	**1,509**	**92,221**
Net increases	159	11,442	3,379	1,907	16,887
Net decreases and impairment	-	(181)	(31)	-	(212)
Amortisation	(1,047)	(12,406)	(3,286)		(16,739)
Reclassifications	43	1,644	427	(2,114)	-
Decrease for earthquake	-	(300)	-	-	(300)
Exchange differences on foreign subsidiaries		(139)	(76)	(17)	(232)
Balance at 12/31/2012	**25,724**	**50,640**	**13,976**	**1,285**	**91,625**
Net increases	537	10,422	2,467	2,898	16,324
Net decreases and impairment	- 8.00	(279)	(10)	(47)	(344)
Amortisation	(936)	(12,270)	(3,275)		(16,481)
Reclassifications	707	272	196	(1,175)	-
Exchange differences on foreign subsidiaries		(517)	(228)	(21)	(766)
Balance at 12/31/2013	**26,024**	**48,268**	**13,126**	**2,940**	**90,358**

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in financial position

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

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

		31/12/2013
A	Cash	(132)
B	Other Cash and cash equivalents	(9,841)
C	Securities held for sale	0
D	**Liquidità (A+B+C)**	**(9,973)**
E	**Short-term financial assets**	**(614)**
F	Due to banks	19,527
G	Current portion of long-term loans	25,404
H	Other short-term financial debt	614
I	**Short-term financial indebtedness (F+G+H)**	**45,545**
J	**Net short-term financial indebtness**	**34,958**
K	**Long-term financial assets**	**(8,593)**
L	Non-current portion of long-term loans	55,894
M	Due to bondholders	0
N	Other long-term financial debt	8,593
O	**Long-term financial indebtedness (L+M+N)**	**64,487**
P	**Net long-term financial indebtness (O-K)**	**55,894**
	Net financial indebtness (J+P)	**90,852**

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

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
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 5

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

Type of services	Party providing the services	Recipient	Fees earned in 2013
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	67
	Deloitte & Touche S.p.A.	Florida Tile (*)	0
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	34
	Reconta Ernst & Young S.p.A.	Panariagroup S.p.A.	56
	Reconta Ernst & Young S.p.A.	Florida Tile (*)	54
Totale			210

(*) Wholly owned (direct and indirect) by Panariagroup S.p.A.

EXPLANATORY NOTES - ATTACHMENT 6

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

ATTACHMENT 3C-*ter*

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

1. The undersigned Paolo Mussini, 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 consolidated 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 Consolidated Financial Statements:

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

b) 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.

Sassuolo, 14.03.14

Managing Directors

Paolo Mussini
Andrea Mussini
Emilio Mussini
Giuseppe Mussini
Giuliano Pini

Financial Reporting Manager

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%**