Directors' Interim Report on the 2014 Condensed Half-yearly Consolidated Financial Statements

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Panariagroup Industrie Ceramiche

DIRECTORS' INTERIM REPORT

The condensed half-yearly consolidated financial statements to 30 June 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the instructions issued in implementation of Article 9 of Italian Legislative Decree 38/2005.

The term IFRS means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

In this case, the half-yearly consolidated financial statements were prepared in condensed format, in compliance with IAS 34 ("Interim Financial Reporting").

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 outlines used in preparing these consolidated financial statements do not differ from those applied in the financial statements of 31 December 2013.

Continuing listing standards provided by Article No. 36 of Italian exchanges regulation (adopted with Consob Decision No. 16191/2007 as amended) about issuers that control subsidiaries incorporated or regulated in accordance with laws of extra-EU Countries

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:

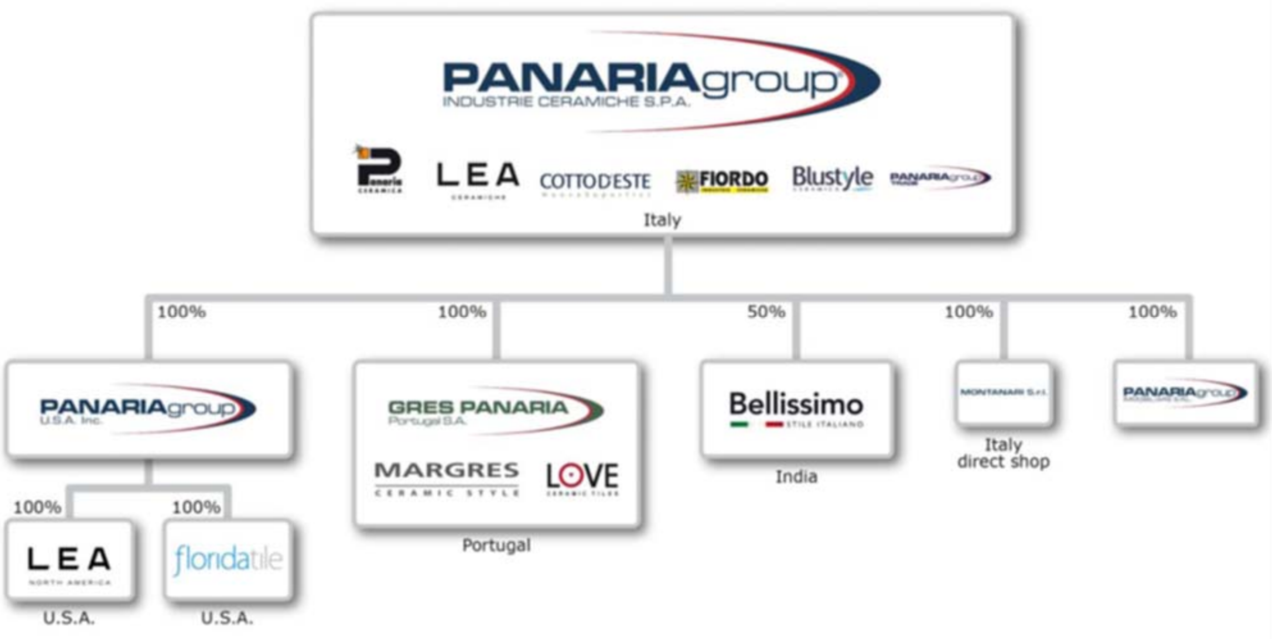
- As of 30 June 2014, three companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc and Lea North America LLC.

- 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 therefore 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 30 June 2014 is as follows:

The parent company is **Panariagroup Industrie Ceramiche S.p.A.,** with a registered office 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 primarily focused on the high-end and deluxe market segment and primarily markets grès porcelain stoneware product lines, both in Italy and abroad.

Gres Panaria Portugal S.A., with a registered office 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. with a registered office 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., with a registered office in Delaware, USA, share capital of USD 34,000,000, wholly owned by Panariagroup USA Inc., produces and markets ceramic materials within the USA through its own distribution network that is primarily located within the Eastern coastline.

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., with a registered office in Crespellano, Bologna (Italy), share capital of Euro 48,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. This is a retail sales point for ceramic materials.

Panariagroup Immobiliare, with a registered office in Finale Emilia, Modena (Italy), share capital of Euro 10,000, fully owned by Panariagroup Industrie Ceramiche S.p.A.
This company's core business is buying, selling and exchanging buildings.

The Group also has an investment in a joint venture company (JVC) headquartered in the Indian state of Gujarat. This company is held 50% by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market.

Officers and Corporate Bodies

Board of Directors

Name	Office
Emilio Mussini	Chairman of the Board and Managing Director
Giuliano Mussini	Deputy Chairman of the Board of Directors
Giovanna Mussini	Deputy Chairman of the Board of Directors
Paolo Mussini	Managing Director
Giuliano Pini	Managing Director
Sonia Bonfiglioli	Independent director
Paolo Onofri	Independent director
Enrico Palandri	Independent director
Roberto Tunioli	Independent director

Board of Statutory Auditors

Name	Office
Francesca Muserra	Chairman of the Board of Statutory Auditors
Piergiovanni Ascari	Standing Auditor
Vittorio Pincelli	Standing Auditor

Independent Auditors

Reconta Ernst & Young S.p.A.

Directors' Interim Report on the 2014 Condensed Half-yearly Consolidated Financial Statements

Results and significant events in the first half of 2014

Dear Shareholders:

During the course of the first half of 2014, the international economy appears to have reported a gradual strengthening, with improvements primarily affecting developed countries while, with regard to emerging countries (BRICS) - despite growth rates that are higher than developed countries - the performance was not as strong as the averages of past years. Within the Eurozone, and despite conditions remain still relatively fragile in many economies, particularly those of the Mediterranean, the first signs of recovery from a long recession have been reported, while in the United States the recovery is now consolidated.

With regard to the construction sector, the dynamics are very differentiated within the areas of operation of the Group; in the Euro area, the sector still does not exhibit the signs of cyclic recovery noted at a macroeconomic level, while in America - following a first quarter slowdown to due to extraordinary weather conditions - a solid level of growth was reported in the second quarter. In emerging markets where the Group operates, overall positive sector results were reported.

Given this context, the revenues of the Group in the first half of 2014 reported positive growth due to the positive results of the second quarter; this result, associated with the significant results obtained in the half-year in relation to reducing working capital and financial indebtedness, confirms the validity of the strategic initiatives initiated by the Group in this international economic scenario.

The results for the first half of the year can be summarised as follows:

- Consolidated revenues from sales amounted to Euro 146.0 million, an increase of Euro 4.6 million compared to the same period of 2013 (+3.3%).
- Gross operating profit amounted to Euro 9.4 million (Euro 10.9 million as of 30 June 2013).
- There was a net operating loss of Euro 0.2 million (profit of Euro 1.6 million as of 30 June 2013).
- The consolidated net loss amounted to Euro 1.9 million (as of 30 June 2013 the loss was Euro 0.9 million).

The trend in revenues was positive, reporting an increase, which was counter to the trend reported in the last two years; this result became possible due to the positive outcomes of the initiatives and strategies which were implemented during 2013.

Despite the greater generated turnover, operating margins fell with respect to the first half of 2013. This decrease is entirely ascribable to the trend of the first quarter; the second quarter of 2014, in fact, reported an improvement, with a gross operating profit of Euro 6.6 million (8.7% of value of production) compared to the Euro 5.8 million of the second quarter of 2013.

In the first half of 2014, the policy for decreasing warehouse stocks of finished products, initiated with a decision made in July 2013. This choice resulted in a significant penalization of the economic result while giving preference to the fully attained objectives of optimizing Net Working Capital and improving the Net Financial Position.

The Net Financial Position has significantly improved by Euro 7.6 million in the last quarter as well as by Euro 15.3 million in the last 12 months.

Sector and business outlook

The performance of the ceramics sector during the half-year was characterized by a decrease within the Italian market as well as by an increase in consumption within all the primary geographical areas, including Europe.

Despite maintaining a prudent outlook, the growth trend reported in both the second quarter of 2014 - with respect to the same periods of 2013 - is undoubtedly a signal of confirmation of a generic recovery of the sector.

Even our Group, in line with the reported trends, reported a positive result in terms of revenues; in particular, the positive performance of the Portuguese business unit (+11%) as well as the US one (+10% in USD) while the Italian business unit was essentially in line with the data of the first half of 2013.

The results of the Portuguese business unit benefited from the positive effects deriving from intense restructuring activities that were implemented in 2013 with the objective of guaranteeing commercial efficacy through a greater presence within the primary European markets and an important growth activity within the emerging African markets.

The growth trend reported by the US business unit was essentially due to the positive growth of Florida Tile, particularly due to the significant contribution in sales increases from the distribution channel using directly managed stores.

Two divergent trends were confirmed during the half-year, as previously noted in the first quarter of the year for the Italian business unit; the difficulties of the Italian and primary European markets were accompanied by brilliant growth within Asian markets and in Oceania.

Restructuring and rationalization activities for the commercial organizations of the Italian brands are currently underway in order to attain, in the short term, a recovery in turnover volumes.

The increase in revenues in the first half of 2014 did not generate an improvement in margins despite the significant recovery attained during the past quarter.

The factors which contributed to the decrease in margins with respect to the previous year are essentially three: halts in production, the significant activity of disposal of finished products with slow turnover and the substantial modification of the sales mix.
The change in the sales mix aimed to attain a greater level of market penetration after taking into account the current economic and financial situation. The increase in sales volumes reported in the first half of the year demonstrates the validity of the choices that were made and will result, in the second half of the year, in a greater use of available productive capacity, with consequent benefits on company profitability.

The significant halts in production - which affected all the plants of the Group - as well as the intense activities for disposal of products with slow turnover were implemented with the clear objective of reducing the level of Net Working Capital. These initiatives, despite resulting in the expected penalization of operating margins, resulted in a significant decrease in the warehouse of Euro 6.6 million since the beginning of the year.

The optimization of Net Working Capital in the second half of 2013, as well as in the first half of 2014, resulted in the significant decrease in Financial Indebtedness which fell from Euro 101.2 million in June 2013 to Euro 85.9 million in June 2014, an improvement of Euro 15.3 million.

Significant events

During the course of the first half of the year, and for the purposes of improving the efficacy of commercial actions within markets that are still not very highly penetrated by the Group, the area of competence of the Panariagroup Trade Division was expanded. The "Trade" distribution model requires concentrating the marketing of all the brands of the Group, in well defined areas, within a single structure; following the expansion, the scope of the Division was enlarged to include certain areas of Eastern Europe.

The positive experience generated from adopting this model within the markets of Asia and Oceania render us confident in attaining similar results in new operational areas.

The organizational structure dedicated to the development of the Private Label channel (production on behalf of third parties) was consolidated and increased; this will allow us to more effectively exploit the productive capacity of our European plants. This structure is already attaining significant sales results.

The US company Florida Tile has expanded its distribution network with the inauguration of two new sales outlets in Dallas and Boise; by the end of 2014, the opening of a new store is expected.

The success in introducing - within the range of products of laminated stoneware - of plates (1 by 3 meters) with a thickness of 5.5 mm was successful; when associated with those of 3 mm which were previously on catalogue it is possible to now attain a full coverage of the applications of this typology. Laminated stoneware products represent an increasingly large quota of the revenues of the Group and continue to generate great market consensus.

Review of the Group's results to 30 June 2014

Income statement - Comparison between 30 June 2014 and 30 June 2013

(in thousands of Euro)

	06/30/2014	%	06/30/2013	%
Revenues from sales and services	**146,005**	**101.22%**	**141,401**	**97.20%**
Change in inventories of finished products	(6,467)	-4.48%	364	0.25%
Other revenues	4,701	3.26%	3,702	2.54%
Value of Production	**144,239**	**100.00%**	**145,467**	**100.00%**
Raw, ancillary and consumable materials	(39,368)	-27.29%	(39,235)	-26.97%
Services, leases and rentals	(56,955)	-39.49%	(57,060)	-39.23%
Personnel costs	(37,432)	-25.95%	(37,070)	-25.48%
Changes in inventories of raw materials	404	0.28%	(26)	-0.02%
Other operating expenses	(1,453)	-1.01%	(1,158)	-0.80%
Cost of production	**(134,804)**	**-93.46%**	**(134,549)**	**-92.49%**
Gross operating profit	**9,435**	**6.54%**	**10,918**	**7.51%**
D&A expenses	(7,979)	-5.53%	(8,450)	-5.81%
Provisions and other impairments	(1,670)	-1.16%	(855)	-0.59%
Net operating profit	**(214)**	**-0.15%**	**1,613**	**1.11%**
Financial income and expense	(1,516)	-1.05%	(1,584)	-1.09%
Pre-tax profit	**(1,730)**	**-1.20%**	**29**	**0.02%**
Income taxes estimated	(142)	-0.10%	(892)	-0.61%
Net profit (loss) for the period	**(1,872)**	**-1.30%**	**(863)**	**-0.59%**

Income statement - 2014 Performance by quarter

(in thousands of Euro)

	Q1	%	Q2	%	06/30/2014	%
Revenues from sales and services	**67,945**	**100.61%**	**78,060**	**101.77%**	**146,005**	**101.22%**
Change in inventories of finished products	(3,034)	-4.49%	(3,433)	-4.48%	(6,467)	-4.48%
Other revenues	2,625	3.89%	2,076	2.71%	4,701	3.26%
Value of Production	**67,536**	**100.00%**	**76,703**	**100.00%**	**144,239**	**100.00%**
Raw, ancillary and consumable materials	(18,145)	-26.87%	(21,223)	-27.67%	(39,368)	-27.29%
Services, leases and rentals	(27,283)	-40.40%	(29,672)	-38.68%	(56,955)	-39.49%
Personnel costs	(18,591)	-27.53%	(18,841)	-24.56%	(37,432)	-25.95%
Changes in inventories of raw materials	(30)	-0.04%	434	0.57%	404	0.28%
Other operating expenses	(691)	-1.02%	(762)	-0.99%	(1,453)	-1.01%
Cost of production	**(64,740)**	**-95.86%**	**(70,064)**	**-91.34%**	**(134,804)**	**-93.46%**
Gross operating profit	**2,796**	**4.14%**	**6,639**	**8.66%**	**9,435**	**6.54%**
D&A expenses	(3,890)	-5.76%	(4,089)	-5.33%	(7,979)	-5.53%
Provisions and other impairments	(221)	-0.33%	(1,449)	-1.89%	(1,670)	-1.16%
Net operating profit	**(1,315)**	**-1.95%**	**1,101**	**1.44%**	**(214)**	**-0.15%**
Financial income and expense	(797)	-1.18%	(719)	-0.94%	(1,516)	-1.05%
Pre-tax profit	**(2,112)**	**-3.13%**	**382**	**0.50%**	**(1,730)**	**-1.20%**
Income taxes estimated	402	0.60%	(544)	-0.71%	(142)	-0.10%
Net profit (loss) for the period	**(1,710)**	**-2.53%**	**(162)**	**-0.21%**	**(1,872)**	**-1.30%**

Income statement - Comparison between 2nd quarter of 2014 and 2nd quarter of 2013
(in thousands of Euro)

	Q2 2014	%	Q2 2013	%
Revenues from sales and services	**78.060**	**101,77%**	**74.747**	**99,16%**
Change in inventories of finished products	(3.433)	-4,48%	(1.397)	-1,85%
Other revenues	2.076	2,71%	2.029	2,69%
Value of Production	**76.703**	**100,00%**	**75.379**	**100,00%**
Raw, ancillary and consumable materials	(21.223)	-27,67%	(20.873)	-27,69%
Services, leases and rentals	(29.672)	-38,68%	(29.592)	-39,26%
Personnel costs	(18.841)	-24,56%	(18.544)	-24,60%
Changes in inventories of raw materials	434	0,57%	157	0,21%
Other operating expenses	(762)	-0,99%	(685)	-0,91%
Cost of production	**(70.064)**	**-91,34%**	**(69.537)**	**-92,25%**
Gross operating profit	**6.639**	**8,66%**	**5.842**	**7,75%**
D&A expenses	(4.089)	-5,33%	(4.294)	-5,70%
Provisions and other impairments	(1.449)	-1,89%	(664)	-0,88%
Net operating profit	**1.101**	**1,44%**	**884**	**1,17%**
Financial income and expense	(719)	-0,94%	(1.024)	-1,36%
Pre-tax profit	**382**	**0,50%**	**(140)**	**-0,19%**
Income taxes estimated	(544)	-0,71%	(649)	-0,86%
Net profit (loss) for the period	**(162)**	**-0,21%**	**(789)**	**-1,05%**

Consolidated revenues

Revenues from sales reported an increase from Euro 141.4 million as of 30 June 2013 to Euro 146.0 million as of 30 June 2014 (Euro +4.6 million).

Principal markets

As previously noted, the weakness within the "traditional" European markets has continued for the Group; this was compensated by the increases within the US, Asian, African and Oceania markets.

The United States were the first country of reference for the Group and confirmed the positive growth trend in USD (+10%); this is less evident within the consolidated financial statements due to the effect of the depreciation of the USD with respect to the Euro in the first half of 2013.
The distribution channel of the Florida Tile stores was the primary growth engine, with an increase in sales in USD of more than 18%.
Despite the slowdown in the construction sector in the first months of 2014 - primarily due to exceptional weather conditions - the US market continues to exhibit a positive dynamic and the primary macro-economic indicators of the sector confirm the positive expectations for the next months as well.
The US market's share of total sales comes to 31%.

The Italian market reported a decrease which was essentially in line with the sector data (-7.2%) reported by the most recent data of Confindustria Ceramica. The persistent crisis which has thus far characterized the construction sector and the Italian real estate market is the reason for the negative trend of sales within the domestic market.
The Italian market's share of total sales comes to 23%.

The European markets overall grew with respect to the past year (+3.4%); during the course of 2013, sales of the Group - in all the primary nations of the Euro area - were characterized by a strong decreasing trend while in the first half year of 2014 there were a few important positive notes, in particular the recovery of the Portuguese market and the positive performance obtained within non-EU markets.

It should be noted that - within the Portuguese market, following years of negative growth due to the particularly unfavourable recession which affected the country - the Group recorded a significant growth of 15%, a particularly important result if one considers that Gres Panaria Portugal is one of the primary players of this market.
European markets account for 34% of total sales.

Other markets (Asia, Oceania, Africa and the Americas) generated in the half-year excellent growth performances, with an overall increase of 27%.
In Africa, revenues doubled, while in Asia growth was around 30%, and in Oceania 42%, while the Americas reported a slight decrease.
The attained results are the result of the development of sales models which have allowed Panariagroup Trade (in Asia and Oceania) as well as Gres Panaria Portugal (in Africa) to develop new opportunities.
Other markets account for 12% of total sales.

The current incidence of revenues with respect to non-European markets is the result of a constant progression which led the incidence of these areas with respect to Group revenues to increase from 26% at the end of 2009 to the current 43%. This result reflects the strategic orientation of the Group which has decisively aimed towards an increasing level of internationalization while simultaneously allowing for diversification of geographic risk and competitiveness in areas with the greatest growth potential.
We believe that the advantage of having consolidated a significant quota of our revenues in very dynamic areas will allow us to maintain solid growth prospects in the medium term.

Performance of Group divisions

The Italian divisions Panaria, Lea, Cotto d'Este, Fiordo and Blustyle - whose business is primarily focused on the domestic market as well as the primary markets of Western Europe - were subject to a slight decrease in sales.
The Panariagroup Trade division - which is centered on Asian markets and Oceania, also due to the contribution of certain extraordinary projects which were completed in the half-year - generated excellent performances in all markets of operation, with an overall increase of 27%.

Following an initially brilliant quarter, the excellent result of the Portuguese division was also confirmed in the second. The efficacy of the re-structuring activities - which involved the commercial area as well as the renewed product range, along with the reduction in costs - positively affected both the development of revenues as well as margins.
The overall increase in revenues of 11% includes significant growth in both the domestic as well as the primary foreign markets; in the latter, the growth activities in the African continent are significant and this area has excellent growth prospects.

In the second quarter of the year, the growth of the US Business Unit was strengthened, reporting an increase in revenues in USD of 10%.
Within the divisions of the US BU, there were non-homogeneous trends, as already occurred in the first quarter; the sustained growth of the company Florida Tile was confirmed, while the divisions Panariagroup USA and Lea North America reported slight decreases in revenues due to the decrease in imports within the US.
The forecasts for this market are also positive for the upcoming half-year.

With regard to the Indian joint venture, the commercial growth activities have continued; in the first half of 2014, the increase in revenues with respect to the previous year was equal to 32%. We remain convinced that the activities implemented within the Indian market represent an important opportunity for development of further know-how and development for our Group.

Operating results

Gross operating profit came to Euro 9.4 million, representing 6.5% of the value of production (Euro 10.9 million as of 30 June 2013, or 7.5% of the value of production).
The primary factors which resulted in the decrease in margin between the two periods are as follows:
- a change in the sales mix of the Italian Business Unit, resulting in a slight decrease in average sales prices;
- intensification of activities for disposal of stocks of finished products with slow turnover and at stock prices;
- the lower level of production which resulted in a negative impact due to the greater incidence of fixed costs.

The following, on the other hand, contributed positively:

- The increase in profitability of the Portuguese business unit as a result of an increase in revenues and significant cost savings deriving from the rationalization implemented during the course of 2013;
- The decrease in energy costs, which is expected to be even greater in the second half of 2014.

If one analyses the data, it can be noted that, in the second quarter of 2014, there was a significant recovery in margins; the gross operating profit of the second quarter was equal to Euro 6.6 million (8.7% of the value of production) compare to the 2.8 million of the first quarter (4.1% of the value of production).

The net operating profit comes to Euro -0.2 million (Euro 1.6 million as of 30 June 2013).

The depreciation and amortisation charge fell slightly with respect to the first half of 2013.
The level of allowances was greater than the first half of 2013 due to the updating of the analysis on the provision needs.
Financial expenses and income were in line with those of the first quarter of 2013.

The consolidated net result is a loss of Euro 1.9 million (negative by Euro 0.9 million as of 30 June 2013), this was almost entirely ascribable to the first quarter.

Summary of the Reclassified Consolidated Balance sheet

(in thousands of Euro)

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

(THOUSANDS OF EURO)

	06/30/2014	03/31/2014	12/31/2013	06/30/2013
Inventories	121,688	125,044	128,274	144,585
Accounts Receivable	78,988	73,590	66,510	84,404
Other current assets	8,686	8,807	10,028	10,087
CURRENT ASSETS	**209,362**	**207,441**	**204,812**	**239,076**
Account Payables	(57,067)	(51,680)	(50,655)	(57,494)
Other current liabilities	(27,488)	(24,328)	(23,670)	(25,785)
CURRENT LIABILITIES	**(84,555)**	**(76,008)**	**(74,325)**	**(83,279)**
NET WORKING CAPITAL	**124,807**	**131,433**	**130,487**	**155,797**
Goodwill	8,139	8,139	8,139	8,139
Intangible assets	2,063	2,128	2,149	2,291
Tangible assets	88,500	88,684	90,358	90,887
Equity Investments and other financial assets	357	357	358	475
FIXED ASSETS	**99,059**	**99,308**	**101,004**	**101,792**
Receivables due after following year	956	963	952	719
Provision for termination benefits	(6,073)	(6,053)	(6,101)	(6,376)
Provision for risk and charge	(4,158)	(3,958)	(3,994)	(4,707)
Deferred tax assets	14,149	14,353	13,589	9,722
Other payables due after the year	(1,155)	(1,152)	(1,925)	(2,834)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**3,719**	**4,153**	**2,521**	**(3,476)**
NET CAPITAL EMPLOYED	**227,585**	**234,894**	**234,012**	**254,113**

Short term financial assets	(6,822)	(10,529)	(9,973)	(7,548)
Short term financial debt	44,569	50,573	44,931	52,310
NET SHORT TERM FINACIAL DEBT	**37,747**	**40,044**	**34,958**	**44,762**
Mid-Long term financial debt	48,106	53,396	55,894	56,426
NET FINANCIAL POSITION	**85,853**	**93,440**	**90,852**	**101,188**
Group Shareholders' Equity	141,732	141,454	143,160	152,925
SHAREHOLDERS' EQUITY	**141,732**	**141,454**	**143,160**	**152,925**
TOTAL SOURCES OF FOUNDS	**227,585**	**234,894**	**234,012**	**254,113**

As required by Consob Communication DEM/6064293 of 28 July 2006, a reconciliation between the above consolidated reclassified balance sheet and the related financial statement format is attached to the directors' report.

Net Working Capital

Net working capital decreased significantly with respect to 30 June 2013 by Euro 31.0 million. The comparison is made with the figure of the first half of 2013 because it was more consistent than the figure at the end of the year, as a result of the seasonality of the trends of the main components of net working capital (trade receivables and payables, inventory).
The significant decrease in Net Working Capital reflects the continuation of specific operations that were implemented as of the beginning of the second half of 2013.
This management policy - applied in the past 12 months - generated a decrease in the warehouse of finished products of 22.9 million Euro, thereby reducing it to a reasonable level.

Despite the increase in revenues the balance of trade receivables reported a decrease of Euro 5.2 million with respect to June 2013; the reason is due to the fact that turnover was primarily concentrated within the markets where collections were increasingly favourable. With regard to the amount of trade receivables, we can confirm that, despite a market characterized by financial tensions, there was no worsening of insolvency percentages; this was due to careful assessment of customer reliability.
Payables due to suppliers were in line with the first half of 2013.

Non-current assets

Non-current assets have decreased by Euro 2.0 million since the start of the year.
This decrease reflects:

- investments equal to Euro 5.8 million which include Euro 3.4 million in the Italian Business Unit, Euro 1.3 million in the Portuguese Business Unit, and Euro 1.1 million in the US Business Unit.
- the higher value of non-current assets of the US sub-consolidation expressed in Euro, because of the appreciation of the dollar since the end of 2013, of Euro 0.2 million.
- depreciation and amortisation for the period, i.e. Euro 8.0 million.

Net Financial Position

Financial cash flow
(thousands euro)

	06/30/2014	03/31/2014	12/31/2014	03/31/2014
Net financial position (debt) - beginning	**(90.9)**	**(90.9)**	**(92.1)**	**(92.1)**
Net Result for the period	(1.9)	(1.7)	(7.9)	(0.9)
D & A	8.0	3.9	17.3	8.5
Net Variation Provisions	(0.6)	(0.8)	(4.1)	(0.8)
Internal operating Cash flow	**5.5**	**1.4**	**5.3**	**6.8**
Change in net working capital and other assets and liabilities	5.1	(1.7)	14.0	(8.6)
Net Investments	(5.8)	(2.1)	(16.5)	(7.5)
Exchange rate diiff. from foreign financial statement conversions	0.3	(0.1)	(1.5)	0.3
Net financial position (debt) - final	**(85.9)**	**(93.4)**	**(90.9)**	**(101.2)**

The Net Financial Position improved significantly with respect to 12 months ago, with a decrease in indebtedness of Euro 15.3 million, including Euro 7.5 million Euro attained in the past quarter. The result is decidedly positive if one also takes into account the level of investments implemented during the course of the past 12 months, equal to Euro 14.8 million; this was the result of the significant decrease in net working capital.

We are working in order to further improve the Net Financial Position in the second half of 2014 as well.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

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.

By contrast, the previous standard, IAS 14 – Segment Reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits; the system of reporting used was only a starting point for such 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 para. 12 of the Standard, the analysis called for is unnecessary since the information would not be useful to readers of the financial statements.

The data required by Paragraphs 32-33 of IFRS 8 are presented below. In particular:

- The breakdown of revenues by principal geographical area and by type of product is provided in the table 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	06/30/2014
CURRENT ASSETS	**114,595**	**43,666**	**47,533**	**11,009**	**216,803**
Inventories	68,204	20,925	32,559	0	121,688
Trade Receivables	35,084	20,655	12,240	11,009	78,988
Due from tax authorities	2,704	1,409	214	0	4,327
Other current assets	4,136	278	564	0	4,978
Cash and cash equivalents	4,467	399	1,956	0	6,822
NON-CURRENT ASSETS	**50,181**	**41,644**	**36,701**	**352**	**128,878**
Goodwill	350	7,789	0	0	8,139
Intangible assets	679	174	1,210	0	2,063
Property, plant and equipment	37,696	31,376	19,428	0	88,500
Financial assets	7	0	8,056	352	8,415
Deferred tax assets	10,899	2,305	7,601	0	20,805
Other non-current assets	550	0	406	0	956
TOTAL ASSETS	**164,776**	**85,310**	**84,234**	**11,361**	**345,681**

	Italy	Europe	USA	Other	TOT
Net investements in asset 2014	**3,467**	**1,309**	**1,067**	**0**	**5,843**

Research and development activities

Research and development activities have continued in 2014 within the sector of reference in which our Group has always distinguished itself.
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/luxury end of the ceramic tile market.

The new product lines completed and in the course of being completed in 2014, especially those to be presented, as usual, at the 2014 CERSAIE trade fair (the most important trade fair in the world for the industry, held at the end of September) are expected to be well received, and the positive outcome of these innovations should be capable of generating good results in terms of turnover, with a favourable impact on the business.

Transactions with parent companies, affiliates and related parties

As regards the condensed half-yearly consolidated financial statements for 2014, related party transactions are explained in the explanatory notes.
In compliance with Consob Communication DEM/6064293 of 28 July 2006, we hereby specify that the Group’s interest in carrying out the related-party transactions described in the explanatory notes is made explicitly manifest by the fact that almost all transactions consist of leases of industrial facilities 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 profit with the corresponding consolidated amounts reported at 30 June 2014 (in thousands of Euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Partent Company)	**143,892**	**(2,792)**
a) Difference between the book value of equity investments and their value using the equity method	(1,703)	1,087
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(940)	(20)
c) Reversal of excahange losses (gains) on intercompany loan	0	(106)
d) Aligment to Group depreciation's rates	139	(11)
e) Recognition of deffered tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	306	12
i) Others	38	(42)
Net effect of consolidation adjustments	**(2,160)**	**920**
As per consolidated financial statements	**141,732**	**(1,872)**

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 2014, the Company has renewed a stock buy-back programme which stood as follows at 30 June 2014:

No. of shares	*% equity*	*Average book value*	*Amount*
432,234	**0.953%**	**3.7347**	**1,614,284.94**

The number of treasury shares in the portfolio is the same as at 31 December 2013, as no purchases or sales were made during 2014.

Panariagroup Industrie Ceramiche S.p.A. does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during the first half of 2014; 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, we declare that there were no atypical and/or unusual transactions, as defined in the explanatory notes, during the first half of 2014.

Privacy

In compliance with Attachment B) of Legislative Decree no. 196/2003 (Privacy Act), the directors acknowledge that the company has complied with the minimum security measures provided for by that legislation.

In particular, pursuant to point 26 of the this same Attachment B), the company has properly prepared a Policy Document on Privacy for the year 2014 that has been deposited at the head office and may be consulted by authorised persons and/or the appropriate authorities.

Significant subsequent events

There were no significant events in the period following the closing of the financial statements on 30 June 2014

Outlook for Group operations

Following the closing of the first half of 2014, the first phase of operations which allowed for the strengthening of the financial structure of the Group can be considered closed, resulting in a significant decrease in Net Working Capital and a significant improvement in the Net Financial Position.

In the second half of the year, there are plans for a significant increase in production with respect to the second half of 2013, given that the level of finished products in the warehouse has already been decreased in the last 12 months. This will allow for an improvement in the negative results which were attained in the second half of 2013.

The second quarter of 2014 is already representative of this scenario; the increase in sales, associated with a production level aligned with the same period of the past year, has led to immediate profit benefits.

Following the experience of re-organization and recovery which has already been put into practice by the US and Portuguese business units, we believe that we can implement, to the same positive extent, strategic operations in order to bring the Italian Business Unit to an adequate level of competitiveness that is more in alignment with current market demand.

Report on Corporate Governance and the Ownership Structure

In compliance with the disclosure requirements of Borsa Italiana Spa and Consob, Panariagroup Industrie Ceramiche Spa has prepared the “Report on Corporate Governance and the Ownership Structure” which can be consulted at its website www.panariagroup.com in the section entitled Company Documents (as required by Art. 123-bis of Italian Law Decree no. 58 of 24 February 1998).

Risk management

In compliance with disclosure requirements for listed companies, Italian Law 262/2005 amended the 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

The financial markets became especially volatile during 2014, with serious consequences both for numerous financial institutions and, more generally, for the economy as a whole. The precarious state of market conditions has been exacerbated 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, including our own. 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 disclosures 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 over 70% of the share capital - it is reasonable to assume that the possibility of its principal managers leaving the Group 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 – a difficult one 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. However, the possibility that increased competition may negatively impact the Group's economic and financial results in the medium to long term cannot be excluded.

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 2013 and 2014. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term. However, the Company believes that the possibility of revising price lists, given the Group's positioning in the high end luxury market which is less sensitive to price variations, should mitigate such effects in the medium 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.

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 the first half of 2014 consisted of 1,575 people, a decrease of 36 employees compared with the average figure for the first half of 2013.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Consob Resolution 11971 of 14 May 1999

In compliance with the provisions of this resolution, the following table reports the interests in Panariagroup and its subsidiaries held 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 the same 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 the **1st half year 2014**	Number of shares sold in the **1st half year 2014**	Number of shares held at 06/30/2014	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	892,962		196,097	696,865	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 Paolo	Panariagroup	10,000		9,000	1,000	Direct	Property
Palandri Enrico	Panariagroup	-			-	Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Bonfiglioli Sonia	Panariagroup				-	Direct	Property
Tunioli Roberto	Panariagroup				-	Direct	Property
Muserra Francesca	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 30 June 2014
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2013
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Sassuolo 8 August 2014 ***Mussini Emilio***

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
figures at 06/30/2014

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	06/30/2014	RIF
CURRENT ASSETS	**216,803**	
Inventories	121,688	A
Trade Receivables	78,988	B
Due from tax authorities	4,327	C
Other current assets	4,978	D
Cash and cash equivalents	6,822	E
NON-CURRENT ASSETS	**128,878**	
Goodwill	8,139	F
Intangible assets	2,063	G
Property, plant and equipment	88,500	H
Financial assets	8,415	I
Deferred tax assets	20,805	J
Other non-current assets	956	L
TOTAL ASSETS	**345,681**	

LIABILITIES AND EQUITY	06/30/2014	RIF
CURRENT LIABILITIES	**129,743**	
Due to banks and other sources of finance	45,188	M
Trade payables	57,067	N
Due to tax authorities	3,109	O
Other current liabilities	24,379	P
NON-CURRENT LIABILITIES	**74,206**	
Employee severance indemnities	6,073	Q
Deferred tax liabilities	6,656	R
Provisions for risks and charges	4,158	S
Due to banks and other sources of finance	56,164	T
Other non-current liabilities	1,155	U
TOTAL LIABILITIES	**203,949**	
EQUITY	**141,732**	
Share capital	22,678	V
Reserves	120,926	W
Net profit (loss) for the year	(1,872)	X
TOTAL LIABILITIES AND EQUITY	**345,681**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	06/30/2014	RIF
Inventories	121,688	A
Trade Receivable	78,988	B
Other current assets	8,686	C+D-(*)
CURRENT ASSETS	**209,362**	
Trade Payables	(57,067)	N
Other current liabilities	(27,488)	O + P
CURRENT LIABILITIES	**(84,555)**	
NET WORKING CAPITAL	**124,807**	
Goodwill	8,139	F
Intangible assets	2,063	G
Property, plant and equipment	88,500	H
Equity Investments and other financial assets	357	I - (**)
FIXED ASSETS	**99,059**	
Receivables due beyond 12 months	956	L
Employee severance indemnities	(6,073)	Q
Provision for risk and charge	(4,158)	S
Provision for deferred taxes	14,149	J+R
Other liabilities due beyond 12 months	(1,155)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**3,719**	
NET CAPITAL EMPLOYED	**227,585**	
Short term financial assets	(6,822)	E
Short term financial indebtedness	44,569	M - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**37,747**	
Mid-Long term financial debt	48,106	T - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**48,106**	
NET FINANCIAL POSITION	**85,853**	
Group Shareholders' Equity	141,732	V+W+X
SHAREHOLDERS' EQUITY	**141,732**	
TOTAL SOURCES OF FOUNDS	**227,585**	

(*) CURRENT PORTION OF IRB **619**

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 **8,058**

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

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	12/31/2013	RIF
CURRENT ASSETS	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 BETWEEN THE SUMMARY OF CASH FLOWS AND THE IFRS-FORMAT CASH FLOW STATEMENT

Foreword:

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)

	06/30/2014
Short-term securities	(619)
Cash and cash equivalents	(6,822)
Short-term financial assets	**(7,441)**
Long-term securities	(8,058)
Long-term financial assets	**(8,058)**
Due to banks	15,887
Current portion of long-term loans	28,681
Leases	619
Short-term financial indebtedness	**45,187**
Non-current portion of long-term loans	48,107
Leases	8,058
Long-term financial indebtedness	**56,165**
Net financial indebtedness	**85,853**

Net short-term financial indebtedness	**9,065**

(as reported in IFRS cash flow statement)

Total net financial position	**85,853**

(as reported in summary of cash flow contained in the Director's Report)

PANARIAGROUP- CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(Thousands of Euro))	06/30/2014	
A - OPERATIONS		
Profit (loss) of the year	(1,872)	A
Depreciation and amortisation	7,979	B
Deferred tax liabilities (assets)	(560)	C
Net change in provisions	(85)	E
Cash flow (absorption)from operations due to changes in working capital	*5,462*	
(Increase)/(decrease) in trade receivables	(12,934)	
(Increase)/(decrease) in inventories	7,263	
(Increase)/(decrease) in trade payables	6,412	
Net change in other assets/liabilities	4,386	
Cash flow (absorption)from operations due to changes in working capital	*5,127*	F
Total (A) Cash flow from operations	**10,589**	
B - ATTIVITA' DI INVESTIMENTO		
Investimenti netti in immobilizzazioni materiali e immateriali	(5,843)	H
Investimenti netti in immobilizzazioni finanziarie		J
Differenza cambio su immobilizzazioni materiali e immateriali	(192)	K
Totale (B) Flusso (Assorbimento) di cassa derivante dall'attivita' di investimento	**(6,035)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
New loans	5,000	
Loans repayments	(9,507)	
Total (C) Cash flow (absorption) from financing activities	**(4,507)**	
Opening net cash (indebtedness)	**(9,556)**	
Change in the translation reserve	**444**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**47**	
Closing net cash (indebtedness)	**(9,065)**	(X)

Financial cash flow

(thousands euro)

	06/30/2014	
Net financial position (debt) - beginning	**(90,852)**	
Net Result for the period	(1,872)	A
D & A	7,979	B
Net change in other provisions	(645)	C+E
Self-financing	**5,462**	
Change in net working capital and other assets and liabilities	5,127	F
Net Investments	(5,843)	H +J
Exchange rate diiff. from foreign financial statement conversions	252	M + N + K
Net financial position (debt) - final	**(85,854)**	(Z)