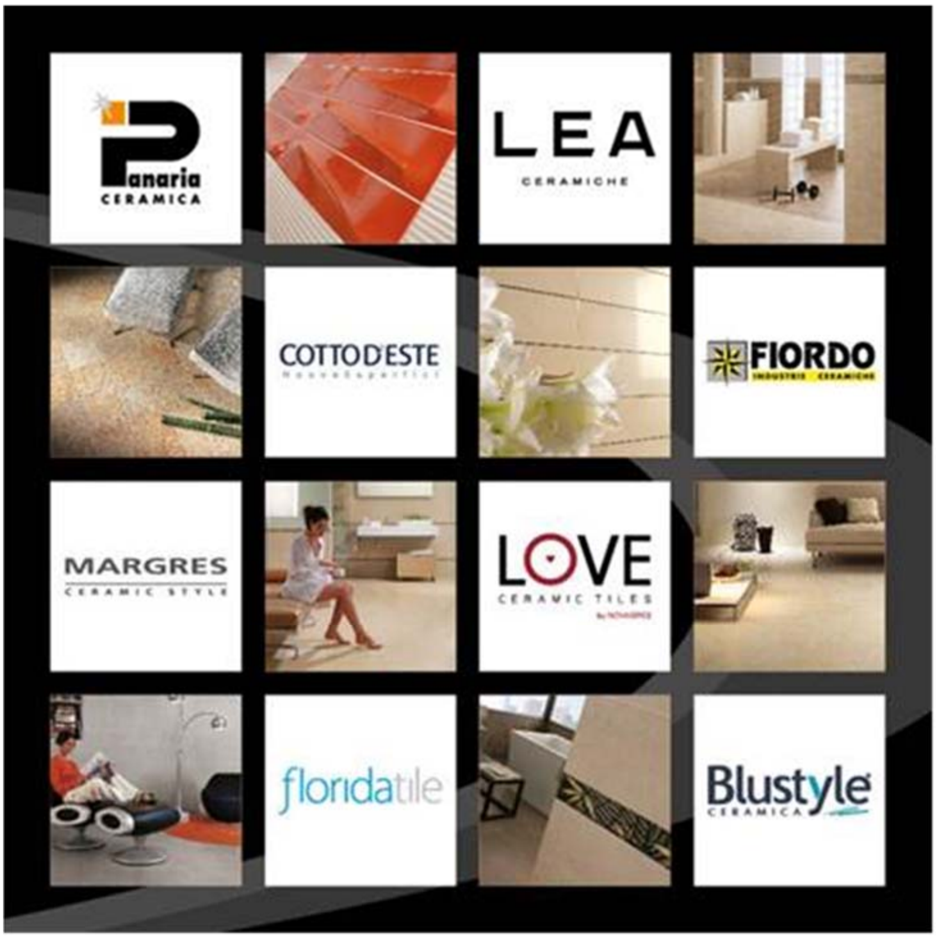
PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

CONSOLIDATED ANNUAL REPORT 2014 - DRAFT



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Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders
of Panariagroup Industrie Ceramiche S.p.A.

1. We have audited the consolidated financial statements of Panariagroup Industrie Ceramiche S.p.A. and its subsidiaries, (the "Panariagroup Group") as of December 31, 2014 and for the year then ended, comprising the statement of financial position, the income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated equity, the cash flows statement and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Panariagroup Industrie Ceramiche S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 28, 2014.

3. In our opinion, the consolidated financial statements of the Panariagroup at December 31, 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Panariagroup Group for the year then ended.

4. The Directors of Panariagroup S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Directors' Report and the Report on Corporate Governance and the Company's Ownership Structure published in the section "Social Documents" of Panariagroup Industrie Ceramiche S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and of the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report and the information presented in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) in the Report on Corporate Governance and the Company's Ownership Structure, are consistent with the consolidated financial statements of the Panariagroup Group at December 31, 2014.

Bologna, March 30, 2015

Reconta Ernst & Young S.p.A.
Signed by: Gianluca Focaccia, partner

This report has been translated into the English language solely for the convenience of international readers.

Panariagroup Industrie Ceramiche

DIRECTORS REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Introduction

The consolidated financial statements for the year ended 31 December 2014 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 Legislative Decree 38/2005.
The term IFRS refers to all of the revised international accounting standards (“IAS”) and all of the interpretations by the International Financial Reporting Interpretations Committee (“IFRIC”), previously named the Standing Interpretations Committee (“SIC”).

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Group adopted the IFRS standards issued by the International Accounting Standards Board officially approved by the European Union. The accounting policies and financial statement formats used in preparing these consolidated financial statements do not differ from those applied in the financial statements for the year ended 31 December 2013, with the exception of those international accounting standards which entered into effect as of 01 January 2014 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as of 01 January 2014"; refer to this section for more information. The application of these standards did not produce any significant effects.

As regards the provisions on the conditions applied to the listing of parent companies, incorporated companies or companies regulated under the laws of countries outside of the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- As of 31 December 2014 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 2014 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 sells porcelain gres product lines, both in Italy and abroad.

Gres **Panaria Portugal S.A.**, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000.00, 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 targeting 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 a 100% interest 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 Industrie Ceramiche S.p.A., 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 48,000.00, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

Panariagroup Immobiliare, based in Finale Emilia, Modena (Italy), share capital of Euro 10,000.00, 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
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' Report on the 2014 Consolidated Financial Statements

Results and significant events in 2014

Results

Shareholders,

In 2014, the expansion rates of the world economy highlighted some discrepancies among the main geographic areas.
While the U.S. growth strengthened, the cyclical downturn in the Euro zone continued to reflect the unresolved criticalities of some countries (Italy, Greece and also France) as well as the tensions between Russia and the Ukraine and the Middle East crisis. Also in the strongest economies of the Union, particularly in Germany, some slowdown signs were evident.
In this context, inflation dropped to exceptionally low levels, with the risk of possible deflation in some countries.
Monetary policy on both sides of the Atlantic continues to reflect the cyclic differentiation between the United States and the Euro area: while in the former, the Federal Reserve is applying a cautious QE exit strategy, in the latter the European Central Bank has further broadened its expansionary impulse thus contributing to the start of a depreciation phase of the Euro which, in the future, should stimulate recovery in the Euro area.
In the construction sector, several different dynamics developed in the markets where the Group operates. In the Western European countries, except for the United Kingdom and some areas of North Europe, the current downturn continued although at a slower pace than in Italy; France also showed some signs of a slowdown.
North America showed an accelerating recovery in the second half of the year. In the main emerging countries where the Group operates, significant progress was recorded with the exception of those areas subject to geo-political instability.

Still within this downswing context, the revenue of the Group recorded a significant growth, compared with 2013, due to an increase in volume.

In summary, the results of 2014 can be summarized as follows:

- Consolidated revenues from sales amounted to Euro 290.7 million, an increase of 6.5% with respect to 2013.
- Gross operating profit was equal to Euro 21.0 million (Euro 14.0 million in 2013).
- There was a net operating profit of Euro 1.9 million (loss of Euro 6.8 million in 2013).
- The net consolidated loss was equal to Euro 1.8 million (loss of Euro 7.9 million in 2013).

The year 2014 was characterised by an important reversal in the trend, compared with the two previous years, which led to a solid 6.5% growth in sales (Euro +17.7 million).
After an already positive half year (+3.3%), the second half of the year recorded an additional 10% acceleration in sales.
This acceleration was reported, even if not at the same pace, by all the Business Units of the Group.

Also in terms of revenue, some important improvements were recorded with a positive change in the Gross Operating Profit (Euro 7.0 million), Net Operating Profit (Euro 8.7 million) and an overall Net Result of Euro 6.0 million.

More specifically, after a negative first quarter that was still affected by the 2013 performance, a decisively more positive picture was gradually unfolding with the achievement, in the following three quarters, of a growth in revenue and profits, and with a fourth quarter that saw positive economic results despite very high costs incurred during personnel restructuring.

The equity and financial positions also registered further improvements compared with 2013, culminating with a decline in the Net Working Capital and especially in the Net Financial Position, which went from Euro 90.9 to 80.2 million (Euro -10.7 million).

Sector context and performance

Overall, although to a different extent in the different geographical areas, the performance of our sector, also in 2014, showed a substantial growth trend.

More specifically, while on the one side the sale of tiles experienced a further decline in Italy, on the other side there was a definite revitalisation in the markets of Western Europe with also positive trends in North America, Asia and Eastern Europe (except for Russia).

Our Group aligned itself to these general trends and in some cases, as in the United States, it achieved a performance that exceeded the sector results.

As for operational performance, all three Business Units (Italy, Portugal and USA) showed a definite improvement compared with the previous year, both in terms of revenue and profit.

The Italian Business Unit, which traditionally operates in Italy and in the Western European Markets, directed part of its commercial efforts toward the development of alternative markets and channels with greater growth potential; it was therefore able to fully offset the negative gap associated mostly to the domestic market, thus obtaining a slight increase in turnover.

The higher business volume, accompanied by a higher use of production plants, led to a recovery in profit.

The Portuguese Business Unit fully benefited from the incisive reorganisation carried out in 2013, and obtained important sales results with an 11% increase in sales and significantly higher profit.

The United States Business Unit brilliantly continued on its growth path, both in terms of sales and revenue.

Significant events in the period

In 2014, a significant restructuring of the Italian Business Unit was carried out involving all the business areas of the company.

The centralisation of the service functions (Administration, Finance, Purchasing, Credit Management, Information Systems) was completed with the incorporation of other operating activities in support of the Divisions (Logistics, Work Account, Samples). This centralisation allowed for a structural resizing although its main objective was to obtain more efficient service operations.

In addition to these initiatives, from the beginning of the second half of the year and in order to improve the efficacy of commercial activities in the markets where the Group still has a limited presence, the Panariagroup Trade Division was expanded. The “Trade” distribution model consists in concentrating, in a single structure, the marketing of all the Group's brands in well defined areas; with the expansion, some Eastern European areas were incorporated into the Division's perimeter. We are confident that the positive experience resulting from the adoption of this organisational model in the Asia and Oceania markets will lead to the achievement of equally positive results in the new areas of intervention, as evinced by the results obtained in the first few months of the new structure's activities which have already shown important developments.

Furthermore, in terms of a commercial streamlining, the brands Cotto d’Este and Blustyle were unified into a single organisational unit; the objective is to reduce distribution costs and offer a wider range of products to the customers.

The structure dedicated to the development of the Private Label channel was strengthened and expanded. This will enable us to take better advantage of the production capacity of our European plants; in 2014, this structure achieved a significant increase in its turnover.

The success of the gres laminate products, of which Panariagroup is a market leader, continued to contribute to the increase in the overall sales of the Group.
In order to expand market penetration and areas of application, the product range was significantly broadened with new formats, thicknesses and finishes.

The technological upgrade of the plants continued; the constant attention paid to the maintenance of our technologically advanced facilities is positioning us in a market segment that is accessible to a very limited group of competitors.

In 2014, in particular, we have continued to introduce digital printing technology into the different production lines.

Review of the Group's 2014 Results

Reclassified Income statement at 31 December 2014 compared with 31 December 2013 (in thousands of euro)

	12/31/2014	%	12/31/2013	%	var.	var. %
Revenues from sales and services	**290,679**	**97.46%**	**272,971**	**100.93%**	**17,708**	**6.49%**
Change in inventories of finished products	(2,882)	-0.97%	(11,900)	-4.40%	9,018	-75.78%
Other revenues	10,450	3.50%	8,331	3.08%	2,119	25.44%
Income from unexpected events	0	0.00%	1,061	0.39%	(1,061)	-100.00%
Value of production	**298,247**	**100.00%**	**270,463**	**100.00%**	**27,784**	**10.27%**
Raw, ancillary and consumable materials	(80,048)	-26.84%	(70,933)	-26.23%	(9,115)	12.85%
Services, leases and rentals	(118,238)	-39.64%	(110,478)	-40.85%	(7,760)	7.02%
Personnel costs	(75,636)	-25.36%	(70,832)	-26.19%	(4,804)	6.78%
Other operating expenses	(3,287)	-1.10%	(3,214)	-1.19%	(73)	2.27%
Costs from unexpected events	0	0.00%	(962)	-0.36%	962	-100.00%
Cost of production	**(277,209)**	**-92.95%**	**(256,419)**	**-94.81%**	**(20,790)**	**8.11%**
Gross operating profit	**21,038**	**7.05%**	**14,044**	**5.19%**	**6,994**	**49.80%**
D&A expenses	(16,727)	-5.61%	(17,255)	-6.38%	528	-3.06%
Provisions and impairments	(2,391)	-0.80%	(3,634)	-1.34%	1,243	-34.20%
Net operating profit	**1,920**	**0.64%**	**(6,845)**	**-2.53%**	**8,765**	**-128.05%**
Financial income and expense	(2,519)	-0.84%	(4,020)	-1.49%	1,501	-37.34%
Pre-tax profit	**(599)**	**-0.20%**	**(10,865)**	**-4.02%**	**10,266**	**-94.49%**
Income taxes estimated	(1,242)	-0.42%	3,014	1.11%	(4,256)	-141.21%
Net profit (loss) for the period	**(1,841)**	**-0.62%**	**(7,851)**	**-2.90%**	**6,010**	**-76.55%**

Consolidated revenues

Revenues from sales recorded a **6.5%** overall increase, from Euro 273.0 million in 2013 to Euro 290.7 million in 2014.

Principal markets

As noted above, different performances were recorded in the different geographical areas where our Group operates.

The **US market** was again confirmed as our primary market, with sales totalling Euro 99.0 million. Also in 2014, a double digit growth (+13.3%) was achieved thanks also to favourable market conditions, which we were able to fully seize upon, and to the competitive advantages, in production and commercial terms, that guarantee our direct presence in this extremely important area.

The US market share represents 33% of total sales (impact of 32% as at 31 December 2013).

The **European markets** registered an increase exceeding 6%; this growth was partially due to the performance of the Portuguese market where Panariagroup is one of the main players and where we generated an increase in sales that exceeded our forecast. However, positive performances were registered also in other important areas: Belgium, Germany, Great Britain and Spain.

The sales trend was not affected by the difficulties experienced by Russia in this last period, since Russia is a fairly marginal market for the Group.

The European market share was 33% of the total sales (in line with 2013)

The **Italian market** continues to show signs of weakness although to a lesser extent in the second half of the year; the Group has substantially maintained unaltered its market share with a decline in line with the sector figures.

The Italian market share represents 22% of total sales (impact of 24% as at 31 December 2013).

In the **other markets (Asia, Canada, South America, Oceania and Africa**), the Group achieved a significant 20% growth from all the main areas; particularly noteworthy are the results obtained from the African continent thanks to the activities of the Portuguese Business Unit and in the Asia and Oceania markets, thanks to the activities carried out by the Italian Business Unit.
The “other markets” share represents 12% of total sales (versus 11% in 2013).

The current turnover distribution in the various geographical areas, where the non-European markets reached a 45% share, confirms the strategic direction of the Group toward a growing globalisation in order to diversify the risk and achieve a higher competitiveness in all the markets of interest.
This is the result of a very careful and focused commercial strategy as well as of the work that brought the share of these areas with respect to the total sales of the Group from 26% at the end of 2009 to a current 45%.
The efforts made to consolidate a consistent share of our business volume in very dynamic areas, allow us to maintain, in the medium term, good growth prospects.

Performance of the Group's Divisions

In 2014, the Italian Business Unit showed a modest growth in turnover (+1.5%). The Panaria, Lea, Cotto d'Este, Fiordo, Blustyle Divisions, which operate exclusively in the domestic market and in the Western European markets, had an overall performance conditioned by a contraction in the Italian market and by the less than brilliant economic conditions of the other countries.
The Panariagroup Trade, which operates in the Asian and Oceanian markets, and now also in the main eastern European areas, grew in the main areas of interest.
In 2014, the sales channel that focuses on production on the behalf of third parties, obtained good results; the high technological quality and the wide range of our products are very interesting to this market segment.

The Portuguese Divisions (Margres, Love Tiles) showed a 13% overall growth; more specifically, the most significant performances are attributable to the domestic and the African markets; also the European markets achieved positive results.

The US Divisions (Florida Tile, Panariagroup USA, Lea North America) showed, on the whole, an approximate 13% growth in 2013, thanks in particular to the excellent results of Florida Tile which has always been recognised in the North-American market as a brand of reference and is continuing its development path in all three main sale channels of focus (Stores, Independent Distributors and Home Center).

As it already happened in the USA and in the Portuguese Business Units, some streamlining and restructuring activities are under way – and for the most part already completed – also in the Italian Business Unit. Given the positive results achieved by these operations in the foreign Business Units, we trust we can obtain significant results also in the Italian Divisions, starting with 2015.

The Indian joint venture continues its commercial development activities in line with the formulated plans. In the next few months, we will continue to focus on the development of our organisation and of the customer portfolio, in the belief that the Indian market will represent an important opportunity for our Group, within an economic scenario characterised by a significant recovery, accompanied by greater political stability.

Operating results

Gross operating profit came to Euro 21.0 million, representing 7.1% of the value of production (Euro 14.0 million, 5.2%, in 2013), with a Euro 7.0 million improvement.

The positive change in profit, compared with 2013, was mainly determined by the increase in sales and the larger use of the production capacity of the 6 plants of the Group.

All Divisions contributed to the improvement of the Gross Operating Profit: the Portuguese B.U. showed the most significant growth (Euro +3.6 million), but the contribution of the United Stated B.U. was also excellent (Euro +2.2 million), as was the contribution of the Italian B.U. (Euro +1.2 million).

Looking at the trend of the 2014 quarters, a significant and increasing improvement was noted which makes us confident about the 2015 forecast.

This improvement is to be attributed mostly to the performance in revenue which demonstrates an evidently positive trend, as per the table below:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
REVENUES 2014	**67,945**	**78,060**	**72,057**	**72,617**	**290,679**
REVENUES 2013	**66,654**	**74,747**	**66,486**	**65,084**	**272,971**
VARIATION	**1.9%**	**4.4%**	**8.4%**	**11.6%**	**6.5%**

This has produced a clear reversal in the trend as regards also profitability: except for the first quarter, in the three subsequent quarters the net results were substantially in balance.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
Value of Production	**67,536**	**100.0%**	**76,703**	**100.0%**	**73,248**	**100.0%**	**80,760**	**100.0%**	**298,247**	**100.0%**
EBITDA	**2,796**	**4.1%**	**6,639**	**8.7%**	**5,231**	**7.1%**	**6,372**	**7.9%**	**21,038**	**7.1%**
EBIT	**(1,315)**	**-1.9%**	**1,101**	**1.4%**	**875**	**1.2%**	**1,259**	**1.6%**	**1,920**	**0.6%**
Net result	**(1,710)**	**-2.5%**	**(162)**	**-0.2%**	**(111)**	**-0.2%**	**142**	**0.2%**	**(1,841)**	**-0.6%**

To further strengthen this positive trend, it must be noted that in the last quarter of 2014, non-recurrent restructuring costs amounted to Euro 0.7 million; without this extraordinary cost, the net result for the quarter would have been positive for Euro 0.7 million.

The net operating profit amounted to a positive Euro 1.9 million (versus negative Euro 6.8 million in 2013).

The depreciation and amortisation have slightly declined compared with 2013.

The allocations, amounting to Euro 2.4 million, reflect the prudent assessment of the related financial statements items.

Financial expenses and income declined by Euro 1.5 million. The change is to be attributed, by Euro 1.3 million, to the positive effects of the dollar appreciation over the Euro and by Euro 0.2 million to the decline in interest expense due to a reduction in financial indebtedness and the rates of the Euro area.

The pre-tax results is a loss of Euro 0.6 million (negative by Euro 10.9 million), with a significant improvement by Euro 10.3 million compared with 2013.

The **consolidated net loss** amounted to Euro 1.8 million (loss of Euro 7.9 million in 2013).

Review of the balance sheet

Financial position

(in thousands of Euro)

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET
(THOUSANDS OF EURO)

	31/12/2014	31/12/2013
Inventories	129,837	128,274
Accounts Receivable	69,877	66,510
Other current assets	9,077	10,028
CURRENT ASSETS	**208,791**	**204,812**
Account Payables	(58,633)	(50,655)
Other current liabilities	(25,120)	(22,762)
CURRENT LIABILITIES	**(83,753)**	**(73,417)**
NET WORKING CAPITAL	**125,038**	**131,395**
Goodwill	8,139	8,139
Intangible assets	2,202	2,149
Tangible assets	89,851	90,358
Equity Investments and other financial assets	357	358
FIXED ASSETS	**100,549**	**101,004**
Receivables due after following year	1,064	952
Provision for termination benefits	(6,575)	(6,101)
Provision for risk and charge	(4,230)	(3,994)
Deferred tax assets	14,111	13,589
Other payables due after the year	(2,647)	(2,833)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**1,723**	**1,613**
NET CAPITAL EMPLOYED	**227,310**	**234,012**

Short term financial assets	(2,932)	(9,973)
Short term financial debt	40,027	44,931
NET SHORT TERM FINACIAL DEBT	**37,095**	**34,958**
Mid-Long term financial debt	43,096	55,894
NET FINANCIAL POSITION	**80,191**	**90,852**
Group Shareholders' Equity	147,119	143,160
SHAREHOLDERS' EQUITY	**147,119**	**143,160**
TOTAL SOURCES OF FOUNDS	**227,310**	**234,012**

It must be noted that for a more homogeneous reading of the data, versus the figures of last year, under the column 2013, 908 were reclassified from the item “Other current liabilities” to the item “Other non-current liabilities” in reference to the portion of the Deferred Income maturing after the current period.

As required by CONSOB Communication DEM/6064293 of 28 July 2006, here attached is a table with the reconciliation between the consolidated and reclassified equity-financial position, shown in the balance sheet above, and the related financial statements.

Net working capital

In 2014, the policy for the reduction of the Net Working Capital, already successfully started in the previous years, continued.

This policy entailed a drop in the Net Working Capital of Euro 6.4 million; however, this data was adjusted based on the appreciation of the USD over the Euro which has involved a revaluation of the Net Working Capital components of the US Business Unit exceeding Euro 4 million. In light of this consideration, it must be noted that the inventory value, which from the reading of the balance sheet shows an increase, has in reality dropped by about Euro 3 million, with a constant exchange rate.

During the last two year period, the level of inventory was subject to a careful rationalisation which involved a reduction in the stocked volumes exceeding 15%; we will continue, also in 2015, a policy of reduction in the inventory stock.

The modest growth in the level of commercial debts was produced by an increase in sales especially in the last quarter of 2014.

Non-current assets

Non-current assets decreased by Euro 0.4 million in 2014.

The decrease was due to the following factors:

- net investments, amounting to Euro 13.9 million, carried out by the Italian Business Unit for Euro 8.4 million, the Portuguese B.U. for Euro 2.4 million and the US B.U. for Euro 3.1 million;
- the greater value of the fixed assets of the US sub-consolidations expressed in Euro, because of the appreciation of the dollar since the end of 2013, totalling Euro 2.4 million;
- depreciation and amortisation for the period of Euro 16.7 million.

Given the growth forecast for the Group, important investments are planned for 2015.

We believe that the United States Business Unit needs additional production capacity to sustain the commercial growth plans that have already started in the different distribution channels.

For the Portuguese Business Unit, it is necessary to carry out a further technological upgrade of some important plants in order to allow for the broadening of the product range with larger formats.

In Italy, the plans involve relevant interventions directed at the strengthening of the production and processing lines of gres laminate, as well as further investments directed to the internationalisation of those processes that are currently managed through external providers.

To be noted is that, at the beginning of 2015, within the advanced organisational improvement process, the Group launched an important investment related to the implementation of a new management information system (ERP), shared by all the Business Units, which will enable us to carry out better and more homogeneous process management as well as better monitoring of development strategies.

Net financial position

Financial cash flow
(valori in milioni di Euro)

	December 31, 2014	December 31, 2013
Net financial position (debt) - beginning	**(90.9)**	**(92.1)**
Net Result for the period	(1.8)	(7.9)
D & A	16.7	17.3
Net Variation Provisions	0.0	(4.4)
Non monetary changes	(1.0)	0.0
Internal operating Cash flow	**13.9**	**5.0**
Change in net working capital and other assets and liabilities	11.3	12.7
Net Investments	(13.6)	(16.6)
Exchange rate diff. from US$ financial statement conversions	(0.9)	0.1
Net financial position (debt) - final	**(80.2)**	**(90.9)**

Net Financial Position has improved, compared with the end of 2013, by Euro 10.7 million, with a positive development of the Net Financial Position to Gross Operating Profit ratio, standing now at 3.8.

The operating profit and the reduction in the Net Working Capital have both contributed to this result.

Also in 2015, we will maintain great focus on the financial balance with the objective of further improving the Net Financial Position and Gross Operating Profit.

Equity

Equity increased from Euro 143.2 million in 2013 to Euro 147.2 million in 2014, due mostly to the appreciation of the dollar over the Euro.

Segment information

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

- The breakdown of revenues by principal geographical area is presented in the earlier section on "Revenues".
- The breakdown of total assets by geographical location is shown below:

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

CONSOLIDATED FINANCIAL STATEMENT

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

ASSETS	Italy	Europe	USA	Other	12/31/2014
CURRENT ASSETS	**107,790**	**36,733**	**58,003**	**9,895**	**212,420**
Inventories	68,343	20,311	41,183	0	129,837
Trade Receivables	30,359	16,382	13,242	9,895	69,877
Due from tax authorities	3,320	1,357	329	0	5,006
Other current assets	4,735	(1,812)	1,845	0	4,768
Cash and cash equivalents	1,033	495	1,404	0	2,932
NON-CURRENT ASSETS	**50,680**	**41,170**	**38,801**	**352**	**131,003**
Goodwill	350	7,789	0	0	8,139
Intangible assets	750	152	1,300	0	2,202
Property, plant and equipment	37,357	30,911	21,583	0	89,851
Financial assets	4	0	9,065	352	9,421
Deferred tax assets	11,667	2,318	6,341	0	20,326
Other non-current assets	552	0	512	0	1,064
TOTAL ASSETS	**158,470**	**77,903**	**96,804**	**10,247**	**343,423**

	Italy	Europe	USA	Other	TOTAL
Net investments in tangible assets 2014	**8,359**	**2,418**	**3,064**	**0**	**13,841**

Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2014.

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 2014, and in particular those presented at the now regular event of CERSAIE 2014 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 2014 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 2014 (in thousands of euro):

	2014			2013	
	Equity	Net Income (Loss)		Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Partent Company)	**143,666**	**(2,520)**		**146,683**	**3,750**
a) Difference between the book value of equity investments and their value using the equity method	3,995	4,074		(3,129)	24
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(1,074)	(154)		(920)	(186)
c) Reversal of exchange losses (gains) on intercompany loan	0	(1,247)		0	679
d) Aligment to Group depreciation's rates	129	(22)		150	(22)
e) Recognition of deffered tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	367	73		294	204
f) Elimination of unrealised gains arising from dividend disribution	0	(2,000)		0	0
g) Rivalutazione valore contabile di Partecipazioni in società controllate	0	0		0	(12,300)
i) Others	36	(45)		82	0
Net effect of consolidation adjustments	**3,453**	**679**		**(3,523)**	**(11,601)**
As per consolidated financial statements	**147,119**	**(1,841)**		**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 2014, the Company has renewed a stock buy-back programme which stood as follows at 31 December 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 portfolio is the same as at 31 December 2013, as no purchases or sales were made during 2014.

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 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, it is reported that during 2014 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 2014.

Outlook for Group operations

The year 2014 closed in line with the set out plans aimed at an improvement in sales and profit from all the Business Units, a greater use of the production capacity and a further reduction in the Working Capital and Net Financial Indebtedness.

For the European Business Units, the forecast for 2015 is positive due to the initiatives carried out in order to improve commercial and organisational efficacy but also because of a greater dynamism expected from the markets, compared with their current status, following some of the expansion measures that were recently adopted by the Central European Bank.

As regards the United States Business Unit, all the pre-requisites for further growth are in place, especially with regard to the favourable context of the US market and the capacity demonstrated in previous years to take full advantage of such opportunities.

Two important factors, originating from and linked respectively to the price reduction in energy sources and to the consolidation of the current US to European exchange rate ratio, should contribute to an increase in profits.

In this more favourable context, in comparison with recent years, we are even more encouraged to accelerate reorganisation activities, in particular in the Italian Business Unit which would allow us to recover an adequate level of efficacy and efficiency.

Our confidence in positive future prospects is confirmed by the investments planned for 2015 involving both the European and the U.S. production sites.

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 all reporting requirements for listed companies, the Law 262/2005 has amended the Issuer Regulations by introducing a requirement for the Directors of such companies to identify, assess 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 2014, 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 skills 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 pricewise 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 2013 and 2014. Therefore, their increase, which is not currently expected, could have a negative impact on the financial results of the Group 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 2014 was equal to 1,558 individuals, a decrease of 31 employees compared with the average number in 2013.

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 12/31/2014

Name and Last Name	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2014	Number of shares sold in 2014	Number of shares held at 12/31/2014	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	892,962	20,000	315,262	597,700	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	189,364	61,277		250,641	Direct	Property
Pini Giuliano	Panariagroup	63,617	13,685		77,302	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
Tunioli Roberto	Panariagroup					Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Bonfiglioli Sonia	Panariagroup	-			-	Direct	Property
Mussera Francesca	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property
Totale		**1,320,739**	**94,962**	**324,262**	**1,091,439**		

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 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 13 March 2015 ***Mussini Emilio***

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
figures at 12/31/2014

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	12/31/2014	RIF
CURRENT ASSETS	**212,420**	
Inventories	129,837	A
Trade Receivables	69,877	B
Due from tax authorities	5,006	C
Other current assets	4,768	D
Cash and cash equivalents	2,932	E
NON-CURRENT ASSETS	**131,003**	
Goodwill	8,139	F
Intangible assets	2,202	G
Property, plant and equipment	89,851	H
Financial assets	9,421	I
Deferred tax assets	20,326	J
Other non-current assets	1,064	L
TOTAL ASSETS	**343,423**	

LIABILITIES AND EQUITY	12/31/2014	RIF
CURRENT LIABILITIES	**124,477**	
Due to banks and other sources of finance	40,724	M
Trade payables	58,633	N
Due to tax authorities	3,198	O
Other current liabilities	21,922	P
NON-CURRENT LIABILITIES	**71,827**	
Employee severance indemnities	6,575	Q
Deferred tax liabilities	6,215	R
Provisions for risks and charges	4,230	S
Due to banks and other sources of finance	52,160	T
Other non-current liabilities	2,647	U
TOTAL LIABILITIES	**196,304**	
EQUITY	**147,119**	
Share capital	22,678	V
Reserves	126,282	W
Net profit (loss) for the year	(1,841)	X
TOTAL LIABILITIES AND EQUITY	**343,423**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	12/31/2014	RIF
Inventories	129,837	A
Trade Receivable	69,877	B
Other current assets	9,077	C+D-(*)
CURRENT ASSETS	**208,791**	
Trade Payables	(58,633)	N
Other current liabilities	(25,120)	O + P
CURRENT LIABILITIES	**(83,753)**	
NET WORKING CAPITAL	**125,038**	
Goodwill	8,139	F
Intangible assets	2,202	G
Property, plant and equipment	89,851	H
Equity Investments and other financial assets	357	I - (**)
FIXED ASSETS	**100,549**	
Receivables due beyond 12 months	1,064	L
Employee severance indemnities	(6,575)	Q
Provision for risk and charge	(4,230)	S
Provision for deferred taxes	14,111	J+R
Altre passività esigibili oltre l'esercizio	(2,647)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**1,723**	
NET CAPITAL EMPLOYED	**227,310**	
Short term financial assets	(2,932)	E
Short term financial indebtedness	40,027	M - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**37,095**	
Mid-Long term financial debt	43,096	T - (**)
NET MID-LONG TERM FINANCIAL INDEBTEDNESS	**43,096**	
NET FINANCIAL POSITION	**80,191**	
Group Shareholders' Equity	147,119	V+W+X
EQUITY	**147,119**	
TOTAL SOURCES OF FOUNDS	**227,310**	

(*) CURRENT PORTION OF IRB **697**

Classified under current assets in the IFRS statement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON-CURRENT PORTION OF IRB **9,064**

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 12/31/2013

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	**118,961**	
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	19,976	P
NON-CURRENT LIABILITIES	**84,221**	
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	2,833	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	(22,762)	O + P
CURRENT LIABILITIES	**(73,417)**	
NET WORKING CAPITAL	**131,395**	
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
Altre passività esigibili oltre l'esercizio	(2,833)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**1,613**	
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 FINANCIAL INDEBTEDNESS	**55,894**	
NET FINANCIAL POSITION	**90,852**	
Group Shareholders' Equity	143,160	V+W+X
EQUITY	**143,160**	
TOTAL SOURCES OF FOUNDS	**234,012**	

(*) CURRENT PORTION OF IRB **613**
Classified under current assets in the IFRS statement 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

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.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

		12/31/2014
	Short-term securities	(698)
A	Cash and cash equivalents	(2,932)
	Short-term financial assets	**(3,630)**
	Long-term securities	(9,064)
	Long-term financial assets	**(9,064)**
B	Due to banks	12,740
	Current portion of long-term loans	27,056
	Leases	928
	Short-term financial indebtedness	**40,724**
	Non-current portion of long-term loans	42,301
	Leases	9,860
	Long-term financial indebtedness	**52,161**
	Net financial indebtedness	**80,191**

A+B	**Net short-term financial indebtedness**	**9,808**
	(as reported in IFRS cash flow statement)	

C	**Total net financial position**	**80,191**
	(as reported in summary of cash flow contained in the Director's Report)	

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSAND OF EURO)

(in thousands of euro)	12/31/2014	
A - OPERATIONS		
Profit (loss) of the year	(1,841)	A
Depreciation and amortisation	16,714	B
Deferred tax liabilities (assets)	121	C
Net change in provisions	(172)	D
Tax effect on elimination of intercompany exchange rates	(497)	E
Cash flow (absorption) from operations prior to changes in working capital	*14,325*	
(Increase)/(decrease) in trade receivables	(1,619)	
(Increase)/(decrease) in inventories	3,969	
(Increase)/(decrease) in trade payables	6,027	
Net change in other assets/liabilities	2,913	
Cash flow (absorption)from operations due to changes in working capital	*11,290*	F
Total (A) Cash flow from operations	**25,615**	
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(13,578)	H
Net investment in financial assets	-	J
Exchange difference on property, plant and equipment and intangible assets	-	K
Total (B) Cash Flow (absorption) from investment activities	**(13,578)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	
Other changes in equity	(473)	G
(Purchase) Sale of treasury shares	-	M
Net change in loans	(10,912)	
Total (C) Cash Flow (absorption) from financing activities	**(11,385)**	
Opening net cash (indebtedness)	**(9,556)**	
Change in the translation reserve	**(904)**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**652**	
Closing net cash (indebtedness)	**(9,808)**	(X)

Financial cash flow

(thousands euro)

	31/12/14	
Net financial position (debt) - beginning	**(90,852)**	
Net Result for the period	(1,841)	A
D & A	16,714	B
Non monetary changes	(1,021)	C+D+E+G
Internal operating Cash flow	**13,852**	
Change in net working capital and other assets and liabilities	11,290	F
Net Investments	(13,578)	H +J
Exchange rate diff. from US$ financial statement conversions	(904)	M + N + K
Net financial position (debt) - final	**(80,192)**	(Z)

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INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION
(THOUSANDS OF EURO)

rif	ASSETS	12/31/2014	12/31/2013
	CURRENT ASSETS	**212,420**	**215,398**
1.a	Inventories	129,837	128,274
1.b	Trade Receivables	69,877	66,510
1.c	Due from tax authorities	5,006	4,895
1.d	Other current assets	4,768	5,746
1.e	Cash and cash equivalents	2,932	9,973
	NON-CURRENT ASSETS	**131,003**	**130,944**
2.a	Goodwill	8,139	8,139
2.b	Intangible assets	2,202	2,149
2.c	Property, plant and equipment	89,851	90,358
2.d	Financial assets	9,421	8,951
2.e	Deffered tax assets	20,326	20,395
2.f	Other non-current assets	1,064	952
	TOTAL ASSETS	**343,423**	**346,342**

	LIABILITIES	12/31/2014	12/31/2013
	CURRENT LIABILITIES	**124,477**	**118,961**
3.a	Due to banks and other sources of finance	40,724	45,544
3.b	Trade payables	58,633	50,655
3.c	Due to tax authorities	3,198	2,786
3.d	Other current liabilities	21,922	19,976
	NON-CURRENT LIABILITIES	**71,827**	**84,221**
4.a	Employee severance indemnities	6,575	6,101
4.b.	Deferred tax liabilities	6,215	6,806
4.c	Provisions for risks and charges	4,230	3,994
4.d	Due to banks and other sources of finance	52,160	64,487
4.e	Other non-current liabilities	2,647	2,833
	TOTAL LIABILITIES	**196,304**	**203,182**
5	**EQUITY**	**147,119**	**143,160**
	Share capital	22,678	22,678
	Reserves	126,282	128,333
	Net profit for the year	(1,841)	(7,851)
	TOTAL LIABILITIES AND EQUITY	**343,423**	**346,342**

It should be noted that, for a more homogeneous view of the data, with respect to last year’s financial statements, in the 2013 column, an amount of Euro 908 has been reclassified from the item “Other current liabilities” to the item “Other non-current liabilities”, with reference to the portion of Deferrals maturing after one year.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

rif	INCOME STATEMENTS - IFRS (THOUSANDS OF EURO)	12/31/2014		12/31/2013	
6.a	**REVENUES FROM SALES AND SERVICES**	**290,679**	**97.5%**	**272,971**	**100.9%**
	Change in inventories of finished products	(2,882)	-1.0%	(11,900)	-4.4%
6.b	Other revenues	10,450	3.5%	8,331	3.1%
11.a	Income from unexpected events	–	0.0%	1,061	0.4%
	VALUE OF PRODUCTION	**298,247**	**100.0%**	**270,463**	**100.0%**
7.a	Raw materials	(80,048)	-26.8%	(70,933)	-26.2%
7.b	Services, leases and rentals	(118,238)	-39.6%	(110,478)	-40.8%
	of whic, related party transactions	*(5,491)*	*-1.8%*	*(5,438)*	*-2.0%*
7.c	Personell costs	(75,636)	-25.4%	(70,832)	-26.2%
7.d	Other operating expenses	(3,287)	-1.1%	(3,214)	-1.2%
11.a	Costs from unexpected events	–	0.0%	(962)	-0.4%
	PRODUCTION COSTS	**(277,209)**	**-92.9%**	**(256,419)**	**-94.8%**
	GROSS OPERATING PROFIT	**21,038**	**7.1%**	**14,044**	**5.2%**
8.a	Amortisation and depreciation	(16,727)	-5.6%	(17,255)	-6.4%
8.b	Provisions and writedowns	(2,391)	-0.8%	(3,634)	-1.3%
11.a	Provisions from unexpected events	–	0.0%	–	0.0%
	NET OPERATING PROFIT	**1,920**	**0.6%**	**(6,845)**	**-2.5%**
9.a	Financial income (expense)	(2,519)	-0.8%	(4,020)	-1.5%
	PRE-TAX PROFIT	**(599)**	**-0.2%**	**(10,865)**	**-4.0%**
10.a	Income taxes	(1,242)	-0.4%	3,014	1.1%
	NET PROFIT	**(1,841)**	**-0.6%**	**(7,851)**	**-2.9%**
	BASIC AND DILUTED EARNING PER SHARE	**(0.041)**		**(0.173)**	

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	12/31/2014	12/31/2013
NET PROFIT (LOSS) FOR THE PERIOD	**(1,841)**	**(7,851)**
Other components of comprehensive income that will be reclassified later to after-tax profit	**6,297**	**(2,223)**
Exchange rate differences from foreign operations	6,297	(2,223)
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	**(497)**	**(69)**
Joint-Venture losses- Applying the Equity Method of accounting	37	(89)
(loss) Net Profit from revaluation of defined benefits and plans	(534)	20
COMPREHENSIVE INCOME FOR THE PERIOD	**3,959**	**(10,143)**

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

(in thousands of Euro)	December, 31 2014	2013
A - OPERATIONS		
Net Result of the period	(1,841)	(7,851)
Amortisation, depreciation and impairments	16,714	17,255
Deferred tax liabilities (assets)	121	(4,170)
Net change in provisions	(172)	(251)
Tax effect on elimination of intercompany exchange rates	(497)	225
Cash flow (absorption) from operations prior to changes in working capital	*14,325*	*5,208*
(Increase)/decrease in trade receivables	(1,619)	4,813
(Increase)/decrease in inventories	3,969	13,275
Increase/(decrease) in trade payables	6,027	(8,524)
Net change in other assets/liabilities	2,913	3,114
Cash flow (absorption)from operations due to changes in working capital	*11,290*	*12,678*
Total (A) Cash flow from operations	**25,615**	**17,886**
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(13,578)	(16,637)
Net investment in financial assets	-	2
Total (B) Cash Flow /absorption) from investment activities	**(13,578)**	**(16,635)**
C - FINANCING ACTIVITY		
Increase in capital		-
Distribution of dividends		
Other changes in equity	(473)	(67)
(Purchase) Sale of treasury shares		
Delivery of new loans	11,057	12,736
Loans repayment	(21,969)	(7,809)
Total (C) Cash Flow (absorption) from financing activities	**(11,385)**	**4,860**
Opening net cash (indebtedness)	**(9,556)**	**(15,776)**
Change in the translation reserve	**(904)**	**109**
Net change in short-term net cash (indebtedness) (A+B+C)	**652**	**6,111**
Closing net cash (indebtedness)	**(9,808)**	**(9,556)**
Supplementary information:		
Interest paid	1,536	1,763
Income taxes paid	659	784

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.

(*) For a better understanding of the exchange rate effect on the Net Financial Position, a different cash flow presentation method has been used compared to the previous year; in this format, the changes in the individual components of equity are “net” of the exchange rate effect which is incorporated in full in the item "change in NFP due to exchange rate effect". This item represents the actual impact of the change in exchange rates on the Group’s Net Financial Position. For this reason, the 2013 column does not correspond to the column presented in the 2013 consolidated financial statements.

PANARIAGROUP

Statement of changes in consolidated equity from 1 January 2013 to 31 December 2014

(THOUSANDS OF EURO)	*Capitale Sociale*	*Riserva di sovrapprezzo azioni*	*Riserva di rivalutazione*	*Riserva legale*	*Altre riserve*	*Riserve di conversione*	*Utili portati a nuovo*	*Risultato del Gruppo*	*Totale Patrimonio netto*
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 01.01.2014	**22,678**	**60,783**	**4,493**	**3,771**	**47,736**	**(3,752)**	**15,302**	**(7,851)**	**143,160**
Net result for the period								(1,841)	(1,841)
Other comprehensive profit (loss)					(497)	6,297			5,800
Total gains (losses) booked directly to equity					**(497)**	**6,297**		**(1,841)**	**3,959**
Allocation of net profit for year 2013				187	3,562		(11,600)	7,851	
Balance as of 12.31.2014	**22,678**	**60,783**	**4,493**	**3,958**	**50,801**	**2,545**	**3,702**	**(1,841)**	**147,119**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

EXPLANATORY NOTES

INTRODUCTION

Panariagroup Industrie Ceramiche S.p.A. (hereinafter 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 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the provisions issued in implementation of article 9 of Decree 38/2005
The term IFRS is understood as including all of the revised international accounting standards (IAS), 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.

The currency used to draw up the consolidated financial statements for the period 1 January – 31 December 2014 (hereinafter also: "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 2014, compared with the consolidated balance sheet as at 31 December 2013. 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 2014, compared with the one for 2013.

  Note that, as decided at the time of the transition to IFRS, the income statement shows the following intermediate results, even if they are not accepted by IFRS as a valid accounting measurement, because the Group's management is of the opinion that they provide important information for an understanding of the results for the period:

- o *Gross operating margin:* this is made up of the pre-tax result before financial income and expenses, depreciation and amortisation, provisions and impairment charges made during the period and provisions and impairment charges due to the effects of the earthquake;
- o *Net operating margin:* this is made up of the pre-tax result before financial income and expenses;
- o *Pre-tax profit (loss):* this is made up of the result for the period before income taxes.

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

- in the “Value of production” section a row has been added called ”Income from extraordinary events” which encompasses the components of value of production pertaining to this event (insurance pay-outs and change in inventories of finished products), with the exception of the tax effects;
- in the “Cost of production” section a row 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 plants 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 sub-totals 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, under costs or revenues, of any significant components of income and/or expense deriving from non-recurring events or transactions or arising from transactions or events that are not repeated frequently in the normal course of business.

- The statement of consolidated comprehensive income for 2014 with comparative figures for the year 2013, presented in accordance with the requirements of IAS 1 revised.

- the consolidated cash flow statement for 2014 and 2013. 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 01.01.13 to 31.12.14.

- 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 thus 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 did not change with respect to 31 December 2013.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements for the year ended 31.12.14 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 prospectively 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 2014, the Group held a joint venture company (JVC). This equity investment, was valued in the consolidated financial statements for the year ended 31.12.14 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.

An evaluation will be performed each year to check if the facts and circumstances have

changed as such to modify the equal partnership between the parties in the joint venture agreement.
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 fact, despite the difficult economic and financial conditions, the Group has determined that there are no uncertainties about business continuity, also 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 itself.

The accounting policies used to prepare the consolidated financial statements for the year ended 31 December 2014 do not differ from those used to draft the consolidated financial statements for the year ended 31 December 2013, with the exception of the accounting standards, amendments and interpretations applicable from 1 January 2014.

In particular, the following amendments were made.

- 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. The changes introduced by IFRS 10 require management to make the relevant discretional judgments to determine which companies are subsidiaries and, therefore, which ones need to be consolidated by the parent company.
  The amendment, following the initial approval of the standard also provides an exception to consolidation for entities that fall under the definition of an investment entity pursuant to IFRS 10 - Consolidated Financial Statements. This exception to consolidation requires investment entities to measure subsidiaries at fair value recorded in the income statement. Following the introduction of this new standard, IAS 27 remained limited to the accounting of subsidiaries, jointly-controlled entities and associates in the separate financial statements. These amendments are not applied in the Group's financial statements.
- IFRS 11 "Joint Arrangements". This 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 using the proportional consolidation method. Jointly controlled companies that meet the definition of a joint venture must instead be accounted for using the equity method. As a result of the new IFRS 11 and IFRS 12, IAS 28 was renamed "Investments in associates and joint ventures", and describes the application of the equity method for investments in jointly controlled companies, in addition to associates. The new provisions introduced by IFRS 11 and IFRS 12 had no impact on the Group's financial position and results.

- IFRS 12 "*Disclosure on interests in other entities*". This standard includes all disclosure provisions previously included in IAS 27 relating to the consolidated financial statements, as well as all the disclosure provisions of IAS 31 and IAS 28 relating to a company's investments in subsidiaries, joint arrangements, associates and structured entities.
- 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 did not impact the Group's financial statements.
- IAS 36 "*Recoverable amount disclosures for non-financial assets - Amendments to IAS 36*" These amendments remove the unintended consequences of IFRS 13 on the disclosure required by IAS 36. In addition, these amendments require disclosure of the recoverable value of the assets or CGU for which an impairment loss has been recognised or "reversed" in the year.
- IAS 39 "*Novation of derivatives and continuation of hedge accounting – Amendments to IAS 39*" The amendments aim to regulate situations in which a hedging instrument is novated by a counterparty to a central party as a result of laws or regulations. Therefore, hedge accounting can continue, despite the novation, something that would not be permitted without the amendment. These amendments, which must be applied retrospectively, had no impact on the consolidated financial statements since the Group did not establish its own derivatives in the current year or in previous years.

The standards, amendments and interpretations are indicated below which, at the date of drafting of the consolidated financial statements, had already been issued but not yet entered into force.
The Group did not make provision for the early adoption of any standard, interpretation or improvement issued but not yet entered into force.

- IFRS 9 – Financial instruments. In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, which reflects all phases of the project relating to financial instruments and replaces IAS 39 – Financial instruments: Recognition and measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification, valuation, impairment and hedge accounting. IFRS 9 is effective for years starting on or after 01.01.18. The standard must be applied retrospectively, but is not necessary to provide comparative information. The early application of the previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the initial application date is before 1 February 2015.
- IFRS 14 Regulatory Deferral Accounts. IFRS 14 is an optional standard which allows an entity, whose activities are subject to regulated rates, to continue to apply, at the time of first-time adoption of IFRS, the previous accounting standards adopted for amounts relating to rate regulation. Entities that adopt IFRS 14 must present the balances relating to rate regulation in separate lines of the statement of financial position and present movements in these accounts in separate lines of the statement of profit or loss for the year and other comprehensive income. The standard requires information to be provided on the nature, associated risks, the rate regulation and the effects of rate regulation on the entity's financial statements. IFRS 14 is effective for years starting on or after 1 January 2016.

- IFRS 15 – Revenue from contracts with customers. The IFRS was issued in May 2014 and introduces a new five-step model which will apply to revenues from contracts with customers. IFRS 15 provides for the recognition of revenues for an amount which reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard provides a more structured approach to the recognition and measurement of revenues, replacing all present requirements in the other IFRSs regarding revenue recognition. IFRS 15 is effective for years starting on or after 1 January 2017, with full or amended retrospective application. Early application is permitted.
- Amendments to IFRS 11 – Joint arrangements: Acquisition of an interest. These amendments require a joint operator who accounts for the acquisition of an interest in a joint operation, whose activities constitute a business, to apply the relevant standards of IFRS 3 regarding the accounting of business combinations. The amendments also clarify that, in the event joint control is maintained, the previously held interest in a joint operation is not re-measured on the acquisition of an additional interest. In addition, an IFRS 11 scope exemption was added to clarify that the amendments do not apply when the parties that share control, including the reporting entity, are under the common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial and any additional interest in the joint operation. The amendments must be applied prospectively for years starting on or after 1 January 2016; early adoption is permitted.
- Amendments to IAS 16 and to IAS 38: Clarification of acceptable methods of amortisation and depreciation. The amendments clarify the contents of IAS 16 and IAS 38: Revenues reflect a model of economic benefits generated by management of a business (which the asset is part of), rather than the consumption of the economic benefits from use of the asset. The result is a revenue-based method cannot be used to calculate depreciation for property, plant and equipment and could only be used in extremely limited circumstances for the amortisation of intangible assets. The amendments must be applied prospectively for years starting on or after 1 January 2016; early adoption is permitted.
- Amendments to IAS 19 - Employee benefits: Employee contributions. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Contributions that are linked to service must be attributed to periods of service as a reduction of service cost. The amendment clarifies that, if the amount of the contributions is independent from the number of years of service, an entity may recognise these contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to service periods. This amendment is effective for years starting on or after 1 July 2014.
- Amendments to IAS 27: Equity method in the separate financial statements. The amendments allow entities to account for investments in subsidiaries, joint ventures and associates using the equity method in their separate financial statements. Entities already applying IFRS electing to change to the equity method in their separate financial statements must apply the change retrospectively. The amendments are effective for years starting on or after 1 January 2016; early adoption is permitted.
- Amendments to IAS 1: disclosure initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting financial statements. These amendments are awaiting approval and will apply to years starting on or after 1 January 2016.

- Amendments to IFRS 10 and to IAS 28: sale or contribution of assets between an investor and its associate or joint venture. The amendment aims to eliminate the conflict between the requirements of IAS 28 and IFRS 10 and clarifies that, in a transaction that involves an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. This amendment is awaiting approval and will apply to years starting on or after 1 January 2016.
- IFRIC 21 *"Levies"*. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the applicable legislation, occurs. For payments that are due only when a given minimum threshold is reached, the liability is only recognised when said threshold is reached. IFRIC 21 must be applied retrospectively. This interpretation applies for years starting on or after 1 January 2015.

We also point out that, on 12 December 2013, the IASB published the documents “Annual Improvements to IFRSs: 2010 – 2012 cycle” and “Annual Improvements to IFRSs: 2011 – 2013 cycle” which acknowledge the amendments to standards as part of the annual improvement process, concentrating on amendments deemed to be necessary, but not urgent.
The main changes that may be relevant for the Group refer 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 a contingent consideration classified as an asset or liability is to be measured at fair value at each balance sheet date, with the 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 standard in question is not applicable to all the operations involving the establishment of a joint venture.
- IFRS 8 - Operating Segments: changes require entities to provide information on 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 have “similar economic characteristics”. In addition, the reconciliation of the entity’s total operating segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.
- IFRS 13 - Fair value measurement: changes to the Basis for Conclusions in order to clarify that with the release of IFRS 13, and subsequent amendments to IAS 39 and IFRS 9, the possibility of recording short-term trade receivables and payables without recognising the effects of discounting remains possible, where such effects are immaterial.
- IFRS 40: Clarifications on the interrelationship of IFRS 3 “Business Combinations” and IAS 40 – Investment property, when classifying property as investment property or owner-occupied property.

Entities are to apply the amendments, at the latest, from the date of the start of their first financial year which starts on or after 1 February 2015.

Finally, some improvements were issued which acknowledge the amendments to standards as part of the annual improvement process, concentrating on amendments deemed to be necessary, but not urgent.

The main amendments, still awaiting approval, relate to the following standards:

- IFRS 5, introducing a clarification for cases in which the asset disposal method changes, reclassifying said asset from held for sale to held for distribution;
- IFRS 7, clarifies if and when servicing agreements constitute continuing involvement for the purposes of applying the transfer disclosures;
- IAS 19, clarifies that the currency of the bonds used as a reference to estimate the discount rate must be the same as the one in which the benefits will be paid;
- IAS 34, clarifies the meaning of “elsewhere” in cross referencing.

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 generally 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 generate 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 amount of an asset individually, the Group makes an estimate of the recoverable amount 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, less costs to sell, 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 estimated to be lower than 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 than 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 stipulation of 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 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.

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.

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 re-measurement 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:

	31/12/2014	**31/12/2013**
Average exchange rate for the period	1.3285	1.3281
Current exchange rate at the balance sheet date	1.2141	1.3791

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 relation to legal proceedings, court cases and other disputes, in order to establish an appropriate level for the provisions for risks and charges relating to these 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 from the potential outcomes. 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 31.12.14, this is composed of the following:

	31/12/2014	31/12/2013
Raw, ancillary and consumable materials	12,093	11,576
Work in progress	2,335	1,693
Finished products	126,370	125,590
Buildings held for sale	2,603	3,609
Provision for obsolescence	(13,564)	(14,194)
	129,837	**128,274**

The overall value of inventories rose slightly (up Euro 1.6 million, +1.2%) compared to 31 December 2013. This growth is due to the appreciation of the dollar against the euro, which determined a higher value of the stocks (Euro 4.8 million) of US Business Units in the consolidated financial statements.
In fact, stocks expressed in volumes (m^2) fell by 6%; this decrease is a result of the Group's decision to optimise the level of net working capital.

Inventories of finished products are shown net of a provision for obsolescence of Euro 13,104 thousand at 31 December 2014 (Euro 13,593 thousand at 31.12.13), 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 reduction in the provision for obsolescence reflects intense disposal activities carried out in the year, particularly by the parent company Panariagroup Industrie Ceramiche S.p.A..
The enormous sale of slow-moving finished products, at stock prices, in respect of which an allocation had been made to the provision for slow-moving and obsolete goods as at 31.12.13, made it possible, in evaluating the consistency of the provision at year-end, to release part of it.
The positive economic effect of the reduction in the provision for obsolescence, in line with IAS 2, paragraph 34, was highlighted in the row "Change in inventories of finished products" and implicitly balanced the negative effect of the losses recorded in the year on clearances of obsolete finished products.

Inventories include Euro 2,603 thousand of buildings held for sale (mainly apartments), net of an impairment charge of Euro 460 thousand, based on the estimates of the market value of the assets at the end of the year drawn up by an independent professional.

1.b. Trade receivables

The item "Trade receivables" is composed of:

	31/12/2014	31/12/2013
Trade receivables	75,412	72,291
Provision for bad and doubtful accounts	(5,535)	(5,781)
	69,877	**66,510**

Gross trade receivables are down by around 4% compared to 31.12.13, with this being proportionally greater than the reduction in revenue. This variation is attributable largely to the fall in turnover recorded on the Italian market, characterised by extremely long collection times and an increase in revenues on the US market which, by contrast, recorded very short average extensions.

The item "Trade receivables" includes around Euro 5.2 million in receivables overdue by more than 120 days (equal to roughly 6.9% of total receivables); the provision for bad and doubtful accounts, amounting to Euro 5.5 million, reflects an economic estimate of the recoverable value of total 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:

	31/12/2014	31/12/2013
VAT receivable	1,905	1,528
Advance tax payments	925	846
Other amounts due from tax authorities	2,176	2,521
	5,006	**4,895**

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 IRES income tax receivable or payable is thus a receivable from or payable to the parent company which, in its role as head of the tax group, handles all dealings with the tax authorities.

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

- Euro 0.3 million for tax credits on research and development activities.
- Euro 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:

	31/12/2014	31/12/2013
Advances to social security institutions	109	205
Advances to suppliers	588	364
Rebates from suppliers and credit notes to be received	763	87
Receivables due from employees and third parties	231	582
IRB – Current portion	698	614
Earthquake grants receivable	485	1,639
Other grants to be received	123	329
Receivables for Energy Efficiency Certificates	307	424
Receivables due from energy income	649	430
Other	25	277
Total other current receivables	**3,978**	**4,951**
Total current accrued income and prepaid expenses	**790**	**795**
	4,768	**5,746**

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 more detail in the section on financial assets.

The row “Earthquake grants receivable” refers to the claims presented to the Emilia Romagna Region in relation to damages suffered by buildings and plants, as well as delocalisation expenses, following the earthquake in May 2012 and not covered by insurance policies. In 2014, they were partially collected, due to the provision of work progress reports, which were fully accepted.

“Receivables for Energy Efficiency Certificates” relate to Certificates already credited at the close of the year by the intermediary that manages the procedure for the recognition of so-called “White Certificates” for the Group.

The item "accrued income and prepaid expenses" mainly relates 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:

	31/12/2014	31/12/2013
Bank and post office deposits	2,762	9,836
Cheques	8	5
Cash and equivalents on hand	162	132
	2,932	**9,973**

The financial trend in 2014 compared with the one in 2013 is disclosed in the Consolidated Cash Flow Statement reported previously.

NON-CURRENT ASSETS

2.a. Goodwill

"Goodwill", equal to Euro 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 December 2014 is Euro 7,789 thousand and relates to:

- Euro 4,235 thousand of surplus 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 surplus 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 December 2014 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 in 2009 to 31 December 2014 and, therefore, at the reporting date of these consolidated financial statements, they were entirely overdue.

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 critical issues, 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 2014 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), added with 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.	198,846	-	(89,861)	108,985
Gres Panaria Portugal	40,893	13,928	-	54,821
Panariagroup USA and subsidiaries	63,316	(58)	-	63,258
Montanari Francesco S.r.l.	575	349	-	924

The recoverable amount of each equity investment was determined by applying the UDCF ("Unlevered Discounted Cash Flow") model to the cash flows included in the 2015-2019 Business Plan approved by the Board of Directors of the Company on 13 March 2015. The impairment method was approved by the Board of Directors on 14 November 2014. A terminal value, representing a perpetuity, was calculated at the end of the explicit forecast period. 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% (aligned with the rate used in 2013). 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 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 uncertainties in the ceramics industry. The directors have prepared a business plan for the years from 2015 to 2019 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 2015 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.

Based on the above parameters, the enterprise value of Panaria S.p.A. is some Euro 154.0 million, against the company's net capital employed as per the consolidated financial statements, net of the carrying value of equity investments, of Euro 109.0 million.

Gres Panaria Portugal S.A.

Based on the above parameters, the enterprise value of Gres Panaria Portugal is Euro 91.1 million, against the company's net capital employed as per the consolidated financial statements, inclusive of the allocation of consolidation differences, of Euro 54.8 million.

Panariagroup USA and subsidiaries

On the basis of the above parameters, the enterprise value of Panariagroup USA is USD 179.9 million, against the company's net capital employed as per the consolidated financial statements of USD 76.8 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 in 2014 and the hypothetical WACC, up by +0.50% and +1.00%, is disclosed.

Amounts in millions of Euro	***WACC 7.8%***	***WACC 8.3%***	***WACC 8.8%***
Panaria S.p.A.	*154.0*	*144.9*	*136.2*
Gres Panaria	*91.1*	*85.9*	*80.9*

Panariagroup USA (*)	*179.9*	*170.1*	*160.7*
Montanari	*1.4*	*1.3*	*1.2*

(*) 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.	*>10.0%*
Gres Panaria	*>10.0%*
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 -10%***
Panaria S.p.A.	*154.0*	*148.3*
Gres Panaria	*91.1*	*80.2*
Panariagroup USA (*)	*179.9*	*153.8*
Montanari	*1.4*	*1.2*

(*) 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.	*>20.0%*
Gres Panaria	*>20.0%*
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 judgement in making estimates, which means that the Company cannot guarantee that the assets booked in the consolidated financial statements will not be impaired 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 December 2014. 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 (2015 - 2019 business plan approved by the Parent Company's Board of Directors on 13 March 2015, 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 December 2014 amount to Euro 2,202 thousand, slightly up compared to 31 December 2013.

Changes during the year can be summarised as follows:

	2014	2013
Beginning Balance	**2,149**	**2,425**
Additions	697	551
Retirements	-	(1)
Amortisation charge	(799)	(774)
Exchange differences for foreign subsidiaries	155	(52)
Ending Balance	**2,202**	**2,149**

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:

	31/12/2014	31/12/2013
Land and buildings	25,158	26,024
Plant and machinery	49,282	48,268
Equipment and other assets	14,531	13,126
Construction in progress	880	2,940
	89,851	**90,358**

Changes during the year can be summarised as follows:

	2014	2013
Beginning Balance	**90,358**	**91,625**
Additions	13,235	16,326
Retirements	(90)	(344)
Amortisation charge	(15,915)	(16,482)
Exchange differences for foreign subsidiaries	2,263	(767)
Ending Balance	**89,851**	**90,358**

The changes during the period are reported in an attachment.

Expenditure on property, plant and equipment during the period came to around Euro 13.2 million and refers, for roughly Euro 7.9 million to investments in the Italian Business Unit, for Euro 2.3 million to investments in the Portuguese Business Unit and for roughly Euro 3.0 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.

The real estate properties, in which Panariagroup Industrie Ceramiche S.p.A. carry out their business, are rented as they are owned by Immobiliare Gemma S.r.l. (related party), by effect of the extraordinary spin-off transaction of the real estate assets occurred in 2004.

The subsidiary Florida Tile Inc. has been operating at the Lawrenceburg (Kentucky) plant, which it used under an operating lease that expires in 2030 (with more than one renewal options up to 2050); 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:

	31/12/2014	31/12/2013
Industrial Revenue Bond	9,064	8,593
Investment in Indian JV	352	352
Other	5	6
	9,421	**8,951**

The item "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 increase in value of the Industrial Revenue Bond compared to 31 December 2013 is due to an exchange gain of Euro 1,088 thousand arising from translation at the year-end exchange rate, net of the repayment of the annual instalment of Euro 617 thousand (around USD 850 thousand)

2.e Deferred tax assets

Deferred tax assets are composed as follows:

	31/12/2014	31/12/2013
Deferred tax assets:		
- taxed provisions	4,827	5,897
- tax loss carryforwards	12,643	12,445
- for public grant	1,010	807
- exchange differences on valuation	-	226
- for ACE not deducted	232	102
- other	1,615	918
Deferred tax assets	**20,327**	**20,395**

Deferred tax assets for "tax loss carryforwards" refer to tax losses related to the subsidiary Florida Tile Inc. (Euro 4.0 million), Panariagroup Industrie Ceramiche (Euro 8.1 million) and Gres Panaria Portugal (EUro 0.5 million).

With respect to 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 13 March 2015.

2.f. Other non-current assets

This caption comprises:

	31/12/2014	31/12/2013
Guarantee deposits for utilities	174	172
Loans due from third parties	380	380
Other	510	400
Total other non-current receivables	**1,064**	**952**
Total non current accrued expenses and deferred income	**-**	**-**
	1,064	**952**

The item "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 Industrie Ceramiche S,p,a. as part of the project called "Industry 2015".
The deadline for the repayment of the loan is fixed for 2015.

"Other receivables" includes Euro 271 thousand for deposits on leases of the stores of the subsidiary Florida Tile.

3. CURRENT LIABILITIES

3.a. Due to banks and other sources of finance

Short-term financial payables are made up as follows:

	31/12/2014	31/12/2013
Current account overdrafts	4,332	7,926
Export advances	8,408	10,400
Long-term loans	27,056	25,404
Leases	928	614
Other loans	-	1,200
	40,724	**45,544**

The changes in financial position during 2014, compared with 2013, are shown in the consolidated cash flow statement contained in the section of the consolidated financial statements.

The Group's total borrowing facilities granted by banks at 31 December 2014 amounted to Euro 98.6 million, of which Euro 12.7 million had been drawn down at that date.

"Medium/Long-term loans" include the current portion of unsecured loans obtained by the Parent Company between 2006 and 2014. 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 928 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

Like in previous years, the Group has not carried out any factoring or securitisation transactions in 2014.

3.b. Trade payables

The trend in trade payables is as follows:

	31/12/2014	31/12/2013
Trade payables	58,633	50,655

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. An increase was recorded over the same period in the previous year, due mainly to the considerable increase in production recorded in the last quarter of 2014.

3.c. Due to tax authorities

This caption comprises:

	31/12/2014	31/12/2013
Withholding tax	2,372	2,211
Income taxes	662	404
Other	164	171
	3,198	**2,786**

3.d. Other current liabilities

At 31 December 2014, this caption comprises:

	31/12/2014	31/12/2013
Due to social security institutions	2,938	2,575
Due to employees	6,865	5,899
Due to customers	4,175	3,834
Due to agents	6,632	6,367
Financial derivatives – negative fair value	106	127
Other	733	583
Total current payables	**21,449**	**19,385**
Deferred income from capital grants	95	44
Accrued interest expense	101	130
Deferred income from earthquake insurance payouts	135	107
Other	142	310
Total current accrued expenses and deferred income	**473**	**591**
	21,922	**19,976**

"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. Euro 135 thousand, recorded under "current liabilities", are related to the amount charged to income statement within 12 months.

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2014	31/12/2013
Employee severance indemnities	**6,575**	**6,101**

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

<u>Demographic assumptions</u>

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)

Inability: INPS tables divided by age and gender

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 %

<u>Financial assumptions</u>

The following discount rates have been used:
31/12/2013: IBoxx Eurozone Corporate AA discount rate = 1.49 %
31/12/2013: IBoxx Eurozone Corporate AA discount rate = 3.17 %

The inflation rates taken into consideration are as follows:

Age group	Probability
2015	0.60%
2016	1.20%
2017	1.50%
2018	1.50%
2019 and beyond	2.00%

while in the previous year, the only rate used was 1.90%.

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

Balance at 31/12/2013	**6,101**
Charge to the income statement	197
Charge to Other Comprehensive Income	738
Portion paid out during the year	(461)
Employee severance indemnities at 31/12/2014	**6,575**

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 re-measurement of liabilities and assets under "Total other gains (losses)".

In 2014, the significant changes in the financial assumptions (especially the decreased discount rate) resulted in a remarkable impact of Euro 738 thousand that, consistently with the aforementioned information, was charged to Other Comprehensive Income.

4.b. Deferred tax liabilities

Details of deferred tax liabilities are provided below:

	31/12/2014	31/12/2013
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	2,681	2,771
- valuation of severance indemnities according to IFRS	(145)	86
- valuation of agents' termination indemnities according to IFRS	297	430
- valuation of inventories	938	1,511
- lease-back	212	253
- exchange differences on valuation	411	-
- accelerated amortisation/depreciation	1,754	1,721
- other	67	34
Deferred tax liabilities	**6,215**	**6,806**

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 2,681 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 amortisation/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:

	31/12/2014	31/12/2013
Provision for agents' termination indemnities	3,043	2,666
Provision for tax risks	485	485
Other provisions	702	843
	4,230	**3,994**

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 2013	4.32%
31 December 2014	2.84%

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.

"Provisions for tax risks" include allocations on contingent tax liabilities; the balance at 31 December 2014 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.

The main items that make up "Other provisions" are the "Provision for the risks of ongoing disputes", equal to Euro 192 thousand, and the "Provision for returns", amounting to Euro 205 thousand.

The Parent Company's tax years from 2010 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 December 2014.

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

Medium/long-term financial payables are made up as follows:

	31/12/2014	31/12/2013
Long-term loans	37,208	52,605
Assisted loans	5,093	3,289
Leases	9,860	8,593
	52,160	**64,487**

The item "Medium/long-term loans" relates to the portion beyond 12 months of medium-long term loans, obtained primarily by the parent company, at floating rates tied to Euribor.

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

The "IRB finance lease" mainly 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 2014 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	**27,056**	**928**	**(697)**	**27,287**
2016	18,296	928	(697)	18,527
2017	12,361	928	(697)	12,592
2018	9,745	928	(697)	9,976
2019	1,246	830	(697)	1,379
2020	628	697	(697)	628
2021	26	697	(697)	26
2022	-	697	(697)	-
2023	-	697	(697)	-
2024	-	697	(697)	-
Beyond 10 years	-	2,761	(2,761)	-
Long-term	**42,302**	**9,860**	**(9,034)**	**43,128**
Financial payables	**69,358**	**10,788**	**(9,731)**	**70,415**

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 December 2014, this caption comprises:

	31/12/2014	31/12/2013
Due to suppliers beyond 12 months	184	995
Due to tax authorities beyond 12 months	139	325
Accrued rent - Lawrenceburg	567	457
Deferred income on grants for earthquake	1,602	908
Other	155	148
	2,647	**2,833**

The amounts due to suppliers beyond 12 months refer to the discounted value of medium/long-term payables and mainly relate to the supply of plants and machinery 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. performed in 2012.

"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.

"Deferred income on refunds for earthquake" relate to the amount received as payment by insurance companies and public bodies of damages suffered due to the earthquake in 2012.

In particular, the amount of grants/damages received against capitalised expenses was discounted according to the useful life of the related assets.

Moreover, in some cases, amounts for works planned but not yet carried out have been already received. In this case, the received amount was accounted for under item "medium/long-term deferred income" and will be reversed to the income statement only when the above-mentioned interventions are carried out.

"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:

	31/12/2014	31/12/2013
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,958	3,771
Translation reserve	2,545	(3,752)
Other reserves and retained earnings	54,503	63,038
Profit (Loss) for the year	(1,841)	(7,851)
	147,119	**143,160**

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 with a 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 surplus 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 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 year thanks to the allocation of 5% from the 2013 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:

	31/12/2014	31/12/2013
Extraordinary reserve	50,435	46,872
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings/losses and other reserves	4,605	16,703
	54,503	**63,038**

The Extraordinary reserve has increased by Euro 3,562 thousand following the allocation of part of the Parent Company's 2013 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 December 2014, the treasury shares held in portfolio were 432,234, 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 April 2005. This resolution was then renewed at the Shareholders' Meetings that approved subsequent years' financial statements.

"Retained earnings (accumulated losses) and other reserves" of Euro 4,605 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 December 2014:

- "Interest rate swap" with a notional underlying principal of Euro 1,750 thousand to hedge interest rates on outstanding loans obtained during 2012.
- "Interest rate swap" with a notional underlying principal of Euro 5,625 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 106 thousand. Adjusting these instruments to fair value at 31 December 2014 involved booking income of Euro 21 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 December 2014 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 MAIN INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales

The Group's sales revenues are broken down by geographical area as follows:

	31/12/2014	*31/12/2013*
Italy	68,211	69,307
Abroad	225,989	206,432
(Customer rebates)	(3,521)	(2,768)
	290,679	**272,971**

Revenues from sales increased by 6.5%, from Euro 272,971 thousand at 31 December 2013 to Euro 290,679 thousand at 31 December 2014 (+17.7 million).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31/12/2014	**31/12/2013**	**Change**
Expense recoveries (displays, transport)	3,446	3,284	162
Gains on the sale of property	111	336	-225
Out-of-period income	557	762	-205
Compensation for damages	447	278	169
Grants	929	472	457
Energy income	3,776	1,742	2,034
Capitalisation of own work	7	383	-376
Other	1,177	1,074	103
	10,450	**8,331**	**2,119**
% of Value of production	***3.5%***	***3.1%***	**+0.4%**

"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 and to the portion pertaining to contributions obtained as a refund of damages of the 2012 earthquake (against amortisation of improvements carried out).

"Capitalisation of own work", amounting to Euro 383 thousand in 2013, 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:

	31/12/2014	% of V.O.P.	31/12/2013	% of V.o.P.
Raw materials	36,727	12.3%	34,821	12.9%
Finished products	32,255	10.8%	25,559	9.5%
Packaging	9,674	3.2%	9,133	3.4%
Price lists/Catalogues	971	0.3%	998	0.4%
Remaining change	(68)	0.0%	125	0.0%
Other	421	0.1%	297	0.1%
	80,048	**26.8%**	**70,933**	**26.2%**

The increase in this caption substantially related to the increase in 2014 production compared to the previous year.

7.b. Services, leases and rentals

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

	31/12/2014	% of V.o.P.	31/12/2013	% of V.o.P.
Property rental	9,068	3.0%	8,962	3.3%
Rent of other fixed assets	2,026	0.7%	2,334	0.9%
Commissions	13,130	4.4%	12,923	4.8%
Utilities	31,052	10.4%	27,869	10.3%
Commercial expenses and advertising	7,550	2.5%	7,587	2.8%
Sub-contract work	8,807	3.0%	8,489	3.1%
Maintenance	8,410	2.8%	7,388	2.7%
Transportation	19,708	6.6%	16,606	6.1%
Industrial services	5,853	2.0%	5,767	2.1%
Directors' and statutory auditors' fees	941	0.3%	1,105	0.4%
Consulting fees	3,224	1.1%	3,697	1.3%
Insurance	1,238	0.4%	1,233	0.5%
Other	7,231	2.4%	6,518	2.4%
	118,238	**39.6%**	**110,478**	**40.8%**

"Property rental" mainly includes:

- rents of Euro 5.441 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 3,316 thousand.

7.c. Personnel costs

Personnel costs passed from Euro 70,832 thousand in the year ended 31 December 2013 (26.2% of value of production) to Euro 75,636 thousand in the year ended 31 December 2014 (25.4% of value of production).

Personnel costs can be broken down as follows:

	31/12/2014	31/12/2013
Wages and salaries	57,269	53,521
Social security contributions	15,562	14,505
Severance indemnities and other funds	2,273	2,278
Other personnel costs	568	528
	75,636	**70,832**

It should be noted that, in 2014, personnel costs include around Euro 800 thousand in extraordinary expenses connected with a significant restructuring operation performed at Panariagroup Industrie Ceramiche S.p.A.

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

	31/12/2014	31/12/2013
Managers	36	33
Supervisors and white collar workers	634	639
Foremen and blue collar workers	889	917
	1,558	**1,589**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2014	% of V.o.P.	31/12/2013	% of V.o.P.
Out-of-period expenses	191	0.1%	353	0.1%
Gifts	48	0.0%	26	0.0%
Trade association fees	98	0.0%	106	0.0%
Losses on disposals	175	0.1%	236	0.1%
Indirect taxes	1,201	0.4%	1,226	0.5%
Office equipment	484	0.2%	489	0.2%
Other	1,090	0.4%	778	0.3%
	3,287	**1.1%**	**3,214**	**1.2%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Amortisation/depreciation fell slightly compared to 2013, down from Euro 17,255 thousand at 31 December 2013 to Euro 16,727 thousand at 31 December 2014. No changes were made in rates or original repayment plans.

8.b. Provisions and impairments

The caption "Provisions and impairments", amounting to Euro 2,391 thousand, includes the write-downs of receivables for Euro 1,273 thousand, allocations to the provision for slow-moving and obsolete goods for Euro 363 thousand, allocations for agents' termination indemnities of Euro 736 thousand, and other allocations totalling Euro 19 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2014	31/12/2013
Interest on short-term loans	(242)	(489)
Interest expense on medium/long-term loans	(1,294)	(1,274)
Financial expense on severance indemnity liability	(184)	(194)
Fair value losses on derivatives	-	-
Other	(1,267)	(1,419)
Total financial expense	**(2,986)**	**(3,376)**
Bank interest income	31	36
Interest on receivables	49	102
Fair value gains on derivatives	12	95
Other	-	-
Total financial income	**92**	**233**
TOTAL FINANCIAL INCOME AND EXPENSE	**(2,894)**	**(3,143)**
% of Value of production	*-1.0%*	*-1.2%*
Exchange losses	(2,358)	(1,535)
Exchange gains	3,296	1,142
TOTAL EXCHANGE GAINS AND LOSSES	**938**	**(393)**
% of Value of production	*+0.3%*	*-0.1%*
Financial losses on discounting	(423)	(354)
Financial gains on discounting	-	-
DISCOUNTING GAINS (LOSSES)	**(423)**	**(354)**
% of Value of production	*-0.1%*	*-0.1%*
Impairment losses on equity investments in Joint Ventures	(139)	(130)
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	**(139)**	**(130)**
% of Value of production	*-0.1%*	*-0.1%*

Total financial income (expense)	**(2,519)**	**(4,020)**
% of Value of production	**-0.8%**	**-1.5%**

"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 risks", 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 2014 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	Higher (Lower) Pre-tax profit € mln
+ 0.50%	(0.4)
+ 1.00%	(0.9)
+ 2.00%	(1.9)

Exchange rates (Eur/USD)

Rate	Higher (Lower) Pre-tax profit € mln
1.00	+5.6
1.10	+3.6
1.20	+1.8
1.30	+0.4
1.40	-0.9
1.50	-2.9

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a Income taxes

Income taxes pertaining to the year are equal to Euro 1,242 thousand, although in the presence of a negative pre-tax result of Euro 599 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	(5,249)		
B	Personnel costs	46,902		
C	Net finance costs	(830)		
D	IRAP deductions for tax wedge	20,100		
A	Theoretical taxable income for IRES purpose	(5,249)	(1,443)	27.50%
A+B+C+D	Theoretical taxable income for IRAP purpose	20,723	808	3.90%
CF1	Theoretical Tax Charge - ITALIAN TAXATION		(635)	12.10%

THEORETICAL TAX RATE - PORTUGUESE TAXATION

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRC purpose	447	118	26.50%
CF2	Theoretical Tax Charge - PORTUGUESE TAXATION		118	26.50%

THEORETICAL TAX RATE - US TAXATION

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for Federal + State Taxes purposes	6,291	2,453	39.00%
CF3	Theoretical Tax Charge - US TAXATION		2,453	39.00%

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	Theoretical Tax Charge - TOTAL	1,937	-323.32%
	No taxation of earthquake grants	(129)	21.54%
	Tax effect on consolidation entry	(653)	109.02%
	IRAP deductibility personnel costs	(216)	36.06%
	Difference	303	-50.64%
	ACTUAL tax charge	1,242	-207.35%

11. IMPACT OF THE EARTHQUAKE ON RESULTS

In May 2012, 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 lines that were added to the income statement are "Income from extraordinary events" and "Cost of extraordinary events". It is noted that some expenses connected with the earthquake were incurred in 2014. They were of an irrelevant extent and therefore the Company deemed it reasonable not to report them under a separate item.

"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. The request, submitted in November 2013 relating to damages suffered by buildings, was accepted, and the Company has already received the grant related to the first Reports on work in progress submitted.

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.

The portions of public grants connected with investments still to be made were "suspended" in item "Medium/long-term deferred income". For these portions, the gradual recognition to income statement will be made only upon completion of the planned upgrading works and at the beginning of their amortisation period.

"Cost of extraordinary events" in 2013 refers primarily to the costs of restoration of the office block in Finale Emilia, whose reconstruction was completed in the first months of 2014.

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 all applications submitted by the Group for government grants under Regional Decree E-R no. 57 of 12/10/2012 to aid those who have suffered damages from the earthquake with expenses not covered by an insurance policy, were approved. Some Reports of work in progress related to buildings that had been regularly paid were recognised. Other reports will be submitted during 2015.

The approval of the application by Public Authorities means that the submitted restoration and upgrading application was approved and the maximum amount assigned as grant was defined, while the SAL refer to the actual submitting of costs incurred (invoices and related payments made) which, after being approved by the Region, actually give the right to receive indemnities, within the thresholds defined.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, the basic loss per share of Euro 0.041 (earning of Euro 0.173 per share at 31 December 2013) 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 significant events/transactions were recorded during the year that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. The Company's management has interpreted "significant non-recurring events and transactions" to mean those falling outside the normal course of business.

As already mentioned in the Introduction, the impact on results of the earthquake that struck Emilia Romagna in May 2012 (gross of the related tax effect) has been recorded in specific income statement captions, for a better understanding of the 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” means 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 party (also controlled by Finpanaria)

INCOME STATEMENT
(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Services	32	26	**58**
Total revenues	**32**	**26**	**58**

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,441	**5,441**
Commission for guarantees given	28	-	**28**
Total costs	**28**	**5,441**	**5,469**

Rental expense refers to the rents paid for all of the buildings used for Panariagroup Industrie Ceramiche S.p.A.Õs 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 pre-tax profit	% of operating cash flow*
Revenues	0.02%	9.68%	0.22%
Costs	1.84%	916.69%	21.35%

* before changes in working capital

BALANCE SHEET
(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	39	32	71
Payables	-	27	27
Due from (to) tax authorities	1,783	-	1,783
Net receivable (payable)	**1,822**	**59**	**1,881**

As regards Receivables due to Finpanaria, of a tax nature, the parent company reports a tax receivable of the same amount, still not collected.

All related party transactions are carried out on an arm's length basis.
In this connection, we would call your attention to the fact that a procedure on related-party transactions is now in place in accordance with the CONSOB Regulation adopted with Resolution 17221 of 12 March 2010 and subsequent amendments and additions.

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 January 2013 to 31 December 2014
- Statement of changes in property, plant and equipment from 01 January 2013 to 31 December 2014
- 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 March 2015

The Chairman of the Board of Directors

EMILIO MUSSINI

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 01 January 2013 to 31 December 2014

Panariagroup - Consolodated financial statements

Statement of changes in intangible assets and goodwill from 1/1/2013 to 12/31/2014 (in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
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 subsidia	(52)	-	(52)	-
Balance at 12/31/2013	**2,149**	**-**	**2,149**	**8,139**
Net increases	697		697	-
Net drecreases and impairment	0		0	-
Amortisation	(799)		(799)	-
Reclassifications	-		-	-
Exchange differences on foreign subsidia	155		155	-
Balance at 12/31/2014	**2,202**	**-**	**2,202**	**8,139**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 01 January 2013 to 31 December 2014

Panariagroup - Consolodated financial statements

Statement of changes in property, plant and equipment
from 1/1/2013 to 12/31/2014
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 01/01/2012	**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)	(279)	(10)	(47)	(344)
Amortisation	(936)	(12,270)	(3,275)		(16,481)
Reclassifications	707	272	196	(1,175)	-
Decrease for earthquake					-
Exchange differences on foreign subsidiaries		(517)	(228)	(21)	(766)
Balance at 12/31/2013	**26,024**	**48,268**	**13,126**	**2,940**	**90,358**
Net increases	226	9,488	2,641	880	13,235
Net decreases and impairment	(64)	(12)	(14)		(90)
Amortisation	(1,028)	(11,526)	(3,361)		(15,915)
Reclassifications	-	1,515	1,425	(2,940)	-
Exchange differences on foreign subsidiaries	-	1,549	714	-	2,263
Balance at 12/31/2014	**25,158**	**49,282**	**14,531**	**880**	**89,851**

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)

		31/12/2014	31/12/2013
A	Cash	(162)	(132)
B	Other Cash and cash equivalents	(2,770)	(9,841)
C	Securities held for sale	0	0
D	**Liquidità (A+B+C)**	**(2,932)**	**(9,973)**
E	**Short-term financial assets**	**(698)**	**(614)**
F	Due to banks	12,740	19,527
G	Current portion of long-term loans	27,056	25,404
H	Other short-term financial debt	928	614
I	**Short-term financial indebtedness (F+G+H)**	**40,724**	**45,545**
J	**Net short-term financial indebtness**	**37,094**	**34,958**
K	**Long-term financial assets**	**(9,064)**	**(8,593)**
L	Non-current portion of long-term loans	42,301	55,894
M	Due to bondholders	0	0
N	Other long-term financial debt	9,860	8,593
O	**Long-term financial indebtedness (L+M+N)**	**52,161**	**64,487**
P	**Net long-term financial indebtness (O-K)**	**43,097**	**55,894**
	Net financial indebtness (J+P)	**80,191**	**90,852**

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

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
Giuliano Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giovanna Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Paolo Mussini	Managing Director	Ordinary administration of the Cotto d'Este Division
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup S.p.A.
Paolo Onofri	Director	Independent non-executive
Enrico Palandri	Director	Independent non-executive
Bonfiglioli Sonia	Director	Independent non-executive
Tunioli Roberto	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
Bonfiglioli Sonia
Enrico Palandri
Paolo Onofri

Internal Control Commitee

Name
Bonfiglioli Sonia
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 2014
Auditing	Reconta Ernst & Young S.p.A.	Panariagroup S.p.A.	144
	Reconta Ernst & Young S.p.A.	Florida Tile (*)	54
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	34
Other services	Reconta Ernst & Young S.p.A.	Panariagroup S.p.A.	6
Total			**238**

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 actual application

  of the administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 31 December 2014.

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 Directors' 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, 13 March 2015

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

PANARIAGROUP

Financial Statement of the companies extra-UE controlled by Panariagroup

PANARIAGROUP USA

CONSOLIDATED BALANCE SHEET

(THOUSANDS OF DOLLARS)

ASSETS	31/12/2014	31/12/2013
CURRENT ASSETS	**70,947**	**63,369**
Inventories	50,942	46,658
Trade Receivables	15,661	14,165
Due from tax authorities	0,399	0,157
Other current assets	2,240	1,136
Cash and cash equivalents	1,705	1,253
NON-CURRENT ASSETS	**46,280**	**49,139**
Goodwill	0,000	0,000
Intangible assets	1,578	1,770
Property, plant and equipment	25,307	26,305
Financial assets	11,074	11,921
Deferred tax assets	7,699	8,588
Other non-current assets	0,622	0,555
TOTAL ASSETS	**117,227**	**112,508**

LIABILITIES	31/12/2014	31/12/2013
CURRENT LIABILITIES	**27,329**	**22,231**
Due to banks and other sources of finance	3,664	1,668
Trade payables	20,570	17,804
Due to tax authorities	0,714	0,389
Other current liabilities	2,381	2,370
NON-CURRENT LIABILITIES	**37,276**	**42,665**
Employee severance indemnities	-	-
Deferred tax liabilities	1,975	-
Provisions for risks and charges	0,050	0,100
Due to banks and other sources of finance	34,374	41,730
Other non-current liabilities	0,877	0,835
TOTAL LIABILITIES	**64,605**	**64,896**
EQUITY	**52,622**	**47,612**
Share capital	63,020	63,020
Capital Reserves	(15,407)	(18,703)
Net Profit	5,009	3,295
TOTAL LIABILITIES AND EQUITY	**117,227**	**112,508**

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31/12/2014		31/12/2013	
REVENUES FROM SALES AND SERVICES	**132,295**	**95,0%**	**116,732**	**96,1%**
Change in inventories of finished products	2,698	1,9%	0,909	0,7%
Other revenues	4,242	3,0%	3,770	3,1%
VALUE OF PRODUCTION	**139,235**	**100,0%**	**121,411**	**100,0%**
Raw materials	(57,741)	-41,5%	(50,596)	-41,7%
Services, leases and rentals	(38,807)	-27,9%	(34,500)	-28,4%
Personnel costs	(26,126)	-18,8%	(23,071)	-19,0%
Other operating expenses	-	0,0%	(1,382)	-1,1%
PRODUCTION COSTS	**(124,420)**	**-89,4%**	**(109,549)**	**-90,2%**
GROSS OPERATING PROFIT	**14,815**	**10,6%**	**11,862**	**9,8%**
Amortisation and depreciation	(4,911)	-3,5%	(4,559)	-3,8%
Provisions and writedowns	(0,197)	-0,1%	(0,193)	-0,2%
NET OPERATING PROFIT	**9,707**	**7,0%**	**7,110**	**5,9%**
Financial income (expense)	(1,350)	-1,0%	(1,660)	-1,4%
PRE-TAX PROFIT	**8,357**	**6,0%**	**5,450**	**4,5%**
Income taxes	(3,348)	-2,4%	(2,155)	-1,8%
NET PROFIT	**5,009**	**3,6%**	**3,295**	**2,7%**