

# **Panariagroup Industrie Ceramiche**

## **DIRECTORS' INTERIM REPORT**

The condensed half-yearly consolidated financial statements to 30 June 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the instructions issued in implementation of article 9 of Italian Legislative Decree 38/2005.

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

The Group adopted the IFRS issued by the International Accounting Standards Board, as approved by the European Union, after European Regulation no. 1606 took effect in July 2002, starting with the financial statements for the first half of 2005. The accounting policies and financial statement outlines used in preparing these consolidated financial statements do not differ from those applied in the financial statements of 31 December 2014.

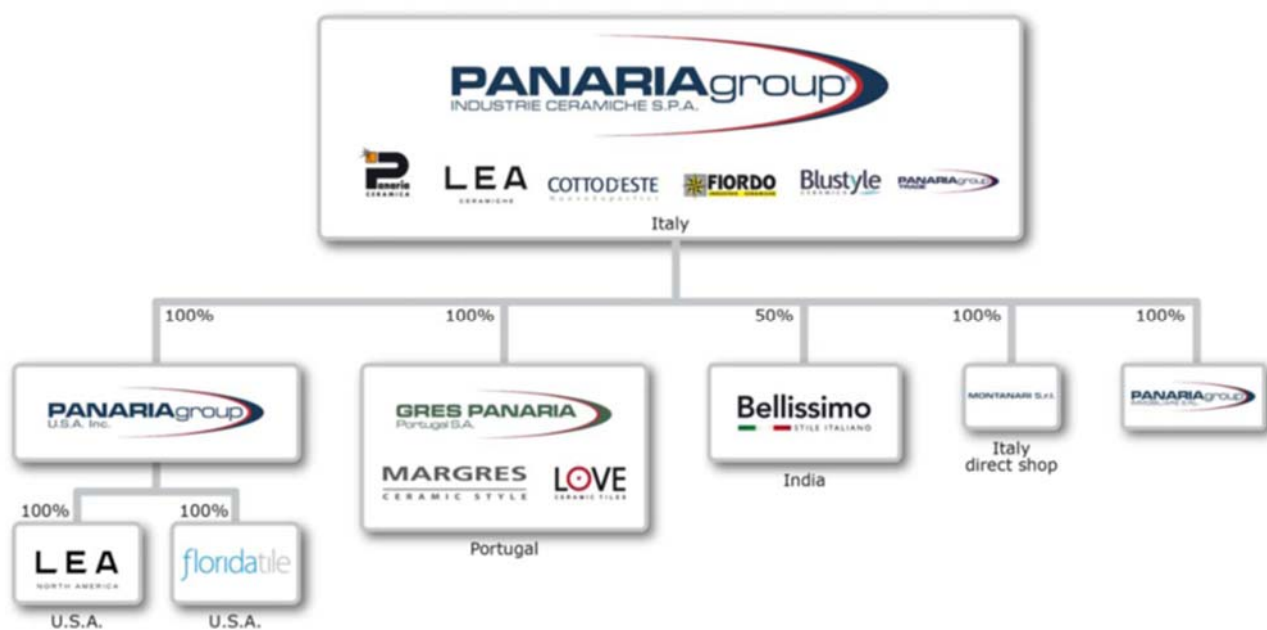
In connection with regulations on the listing of parent companies incorporated or regulated under the laws of countries not belonging to the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- As of 30 June 2015 three companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc and Lea North America LLC.
  
- Adequate procedures have been adopted to ensure thorough compliance with the new rules (art. 36 of Market Regulations issued by Consob).

The Directors' Report does not include any alternative performance measures and therefore we are not required to provide any of the information indicated by the CESR (Committee of European Securities Regulators) in its Recommendation on Alternative Performance Measures (CESR/05-178b).

## 1. STRUCTURE OF THE GROUP

The structure of the Group at 30 June 2015 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. All of these brands focus on the high-end and deluxe market segment and mainly sell grès porcelain stoneware product lines, both in Italy and abroad.

**Gres Panaria Portugal S.A.**, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

Gres Panaria Portugal produces ceramic tiles for floors and walls under two separate brand names, Margres and Love Tiles, both aimed at the main European markets.

**Panariagroup USA Inc.**, based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

It owns 100% interests in Florida Tile Inc. and Lea North America LLC.

This company markets Panaria branded products on the North American market.

**Florida Tile Inc.**, based in Delaware, USA, share capital of USD 34,000,000, wholly owned by Panariagroup USA Inc., produces and sells ceramic tiles in the USA through its own distribution network located mainly on the east coast.

**Lea North America LLC.**, based in Delaware, USA, share capital of USD 20,000, wholly owned by Panariagroup USA Inc.

This company markets Lea branded products on the North American market.

**Montanari S.r.l.**, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

**Panariagroup Immobiliare**, with head office in Finale Emilia, Modena (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.

This company's core business is buying, selling and exchanging buildings.

The Group also has an investment in a **Joint Venture Company** (JVC) headquartered in the Indian state of Gujarat. This company is held 50% by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

## Directors and Officers

### Board of Directors

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

### Board of Statutory Auditors

| Full Name           | Office                                      |
|---------------------|---|
| Mussera Francesca   | Chairman of the Board of Statutory Auditors |
| Ascari Piergiovanni | Standing Auditor                            |
| Pincelli Vittorio   | Standing Auditor                            |

### Independent Auditors

Reconta Ernst & Young S.p.A.

## **Directors' Interim Report on the 2015 Condensed Half-yearly Consolidated Financial Statements**

### **Results and significant events in the first half of 2015**

Dear Shareholders:

Despite doubts regarding the outcome of the Greek situation, in the first half of 2015 the conditions of uncertainty that had weighed on the European economy for some time attenuated thanks to the decisive monetary easing measures taken by the European Central Bank, which contributed towards slowing deflationary trends in the Eurozone.

In particular, we witnessed a depreciation of the shared currency compared to the US dollar and a limitation of spreads on sovereign debt securities, which supported a recovery in the stock markets and resulted in the first signs of an improvement in Eurozone credit conditions. Decreasing energy costs also played a significant role.

These events were seen as positive precursors of a possible recovery in the rhythm of European economic activity.

On the other hand, some issues that arose in emerging markets slowed the pace of growth, including the significant decline in revenue from the export of raw materials and, in some cases, geo-political crisis factors.

In the construction industry, there have been differing dynamics in the Group's various markets. In Europe, the impacts of the cyclical recovery observed at the macroeconomic level are not yet apparent, while America is showing itself to be more dynamic, similar to all of the main emerging markets.

In this context, there was double-digit growth in Group revenue in the first half of 2015, as well as a significant improvement in profitability.

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

- Consolidated **net revenues** amounted to Euro 175.0 million, an increase of Euro 29.0 million compared to the same period of 2014 (+19.8%).
- **Gross operating profit** amounted to Euro 16.4 million (Euro 9.4 million as of 30 June 2014), an improvement of Euro 7.0 million (+73.9%).
- There was a **net operating profit** of Euro 6.7 million (a loss of Euro 0.2 million to 30 June 2014), up Euro 6.9 million.
- The **consolidated net profit** amounted to Euro 3.3 million (as of 30 June 2014 there was a loss of Euro 1.9 million), marking an increase of Euro 5.2 million.

Performance was very positive on the whole during this first half of the year.

The Group achieved considerable revenue growth in all main macro-areas. Performance was particularly notable in the United States, but good results were also recorded in Europe, Italy and in the Asian, African and Oceania markets.

All Business Units made positive contributions to both turnover and profitability growth.

The positive first-quarter results were further improved upon in the second quarter of 2015 in terms of sales as well as profitability, substantially confirming 20% growth in revenues and bringing the Gross Operating Profit over the Value of Production from 7.3% in the first quarter to 10.4% in the second quarter.

Positive trends were also seen in the main capital ratios. The ratio between the Net Financial Position and Gross Operating Profit improved significantly from 3.8 in December 2014 to around 3.

## **Sector and business outlook**

According to information provided by Confindustria Ceramica (the Italian Association of Ceramics Manufacturers), during the half trends in the Italian ceramics sector were characterised by a slight dip in the domestic market, but substantial stability in the European market (with good growth in Great Britain and Germany, offset by the decline in France) and significant growth of the American market and the main Asian markets, marking an overall rise of around 4% in turnover.

In terms of our Group, turnover rose in the Italian Business Unit by 9%, in the Portuguese Business Unit by 17% and in the US Business Unit by 15%, net of the effect of the appreciation of the dollar.

Margins also improved for all Business Units.

The Italian Business Unit showed important signs of recovery. The higher sales volumes allowed for more intensive use of production capacity, leading to a reduction in production costs per unit manufactured.

Volumes increased as a result of the management's specific decision to dedicate part of production to toll manufacturing and the development of new sales channels.

For the Portuguese Business Unit, the important trend reversal that took place in 2014 continued, as a result of the significant reorganisation of the sales network and the renewal of the product range, already carried out in 2013; in particular, stellar results were achieved on the domestic market. Increased turnover was associated with increased use of production capacity, which will be even more significant in the second half of the year, to the benefit of margins.

The US Business Unit once again obtained double-digit turnover growth, exceeding reference market growth (roughly 10%), bearing witness to the success of the distribution model adopted, which covers the direct stores channel as well as the indirect distributors channel. In 2015, the US Business Unit has been using nearly 100% of its production capacity, with significant benefits for production costs. The combined effect of top line growth and increased production resulted in significant growth in margins.



## **Significant events**

In the first half of 2015, more than Euro 12 million in investments were made in technological upgrades to ensure that the Group brands remain in the top end of the market.

At the end of the first half of 2015, a significant portion of Group plants were being fully used, i.e. the Portuguese plants, the US plant and the Italian plant dedicated to laminated stoneware production.

This is positive for a company in our sector with a large production apparatus, as the degree of use of our plants has a notable impact on margins.

As a further increase in sales is expected, we are evaluating an investment plan meant to satisfy the boost in requirements relating to specific geographical areas and types of production.

In terms of the organisation, particularly in the Italian Business Unit, we are evaluating whether to revise the business model, the positioning of the brands, the sales network structure and the entry into new distribution channels in order to adapt to changing market conditions.

The “Cotto d’Este” and “Blustyle” brand sales structures have been unified since the start of the year. This initiative immediately resulted in lower operating costs and allowed for greater penetration of the Blustyle brand through the use of the well-established Cotto d’Este sales network.

This good start of the “Cotto d’Este”, along with the positive results of Panariagroup Trade and the Toll Manufacturing Division, makes us hopeful with respect to the outcome of projects currently being researched.

Expo 2015 in Milan afforded great visibility to the “Bosco Verticale” (“Vertical Forest”), one of the prestigious architectural creations in which our Laminated Stoneware was used for the covering of exterior façades as well as for interior flooring. This project was recognised as the “most beautiful high-rise in the world” (International High-Rise Award 2014).

The Group's efforts made to introduce such an innovative product type generated increasingly positive responses and we can affirm that the drive to achieve additional significant growth in that segment has not faltered.

## **Review of the Group's results to 30 June 2015**

### **Income statement - Comparison between 30 June 2015 and 30 June 2014**

(in thousands of Euro)

|  | <b>06/30/2015</b> | <b>%</b>       | <b>06/30/2014</b> | <b>%</b>       |
|--|-------------------|----------------|-------------------|----------------|
| <b>Revenues from sales and services</b>    | <b>174,988</b>    | <b>95.43%</b>  | <b>146,005</b>    | <b>101.22%</b> |
| Change in inventories of finished products | 4,642             | 2.53%          | (6,467)           | -4.48%         |
| Other revenues                             | 3,744             | 2.04%          | 4,701             | 3.26%          |
| <b>Value of production</b>                 | <b>183,374</b>    | <b>100.00%</b> | <b>144,239</b>    | <b>100.00%</b> |
| Raw, ancillary and consumable materials    | (53,624)          | -29.24%        | (38,964)          | -27.01%        |
| Services, leases and rentals               | (69,020)          | -37.64%        | (56,955)          | -39.49%        |
| Personnel costs                            | (42,542)          | -23.20%        | (37,432)          | -25.95%        |
| Other operating expenses                   | (1,785)           | -0.97%         | (1,453)           | -1.01%         |
| <b>Cost of production</b>                  | <b>(166,971)</b>  | <b>-91.05%</b> | <b>(134,804)</b>  | <b>-93.46%</b> |
| <b>Gross operating profit</b>              | <b>16,403</b>     | <b>8.95%</b>   | <b>9,435</b>      | <b>6.54%</b>   |
| D&A expenses                               | (8,436)           | -4.60%         | (7,979)           | -5.53%         |
| Provisions and impairments                 | (1,291)           | -0.70%         | (1,670)           | -1.16%         |
| <b>Net operating profit</b>                | <b>6,676</b>      | <b>3.64%</b>   | <b>(214)</b>      | <b>-0.15%</b>  |
| Financial income and expense               | (1,227)           | -0.67%         | (1,516)           | -1.05%         |
| <b>Pre-tax profit</b>                      | <b>5,449</b>      | <b>2.97%</b>   | <b>(1,730)</b>    | <b>-1.20%</b>  |
| Income taxes estimated                     | (2,184)           | -1.19%         | (142)             | -0.10%         |
| <b>Net profit (loss) for the period</b>    | <b>3,265</b>      | <b>1.78%</b>   | <b>(1,872)</b>    | <b>-1.30%</b>  |

## Income statement - 2015 Performance by quarter

(in thousands of Euro)

|  | Q1              | %              | Q2              | %              | 06/30/2015       | %              |
|--|-----------------|----------------|-----------------|----------------|------------------|----------------|
| <b>Revenues from sales and services</b>    | <b>81,923</b>   | <b>95.02%</b>  | <b>93,065</b>   | <b>95.79%</b>  | <b>174,988</b>   | <b>95.43%</b>  |
| Change in inventories of finished products | 2,729           | 3.17%          | 1,913           | 1.97%          | 4,642            | 2.53%          |
| Other revenues                             | 1,565           | 1.82%          | 2,179           | 2.24%          | 3,744            | 2.04%          |
| <b>Value of Production</b>                 | <b>86,217</b>   | <b>100.00%</b> | <b>97,157</b>   | <b>100.00%</b> | <b>183,374</b>   | <b>100.00%</b> |
| Raw, ancillary and consumable materials    | (24,960)        | -28.95%        | (28,664)        | -29.50%        | (53,624)         | -29.24%        |
| Services, leases and rentals               | (33,040)        | -38.32%        | (35,980)        | -37.03%        | (69,020)         | -37.64%        |
| Personnel costs                            | (21,127)        | -24.50%        | (21,415)        | -22.04%        | (42,542)         | -23.20%        |
| Other operating expenses                   | (804)           | -0.93%         | (981)           | -1.01%         | (1,785)          | -0.97%         |
| <b>Cost of production</b>                  | <b>(79,931)</b> | <b>-92.71%</b> | <b>(87,040)</b> | <b>-89.59%</b> | <b>(166,971)</b> | <b>-91.05%</b> |
| <b>Gross operating profit</b>              | <b>6,286</b>    | <b>7.29%</b>   | <b>10,117</b>   | <b>10.41%</b>  | <b>16,403</b>    | <b>8.95%</b>   |
| D&A expenses                               | (4,128)         | -4.79%         | (4,308)         | -4.43%         | (8,436)          | -4.60%         |
| Provisions and other impairments           | (388)           | -0.45%         | (903)           | -0.93%         | (1,291)          | -0.70%         |
| <b>Net operating profit</b>                | <b>1,770</b>    | <b>2.05%</b>   | <b>4,906</b>    | <b>5.05%</b>   | <b>6,676</b>     | <b>3.64%</b>   |
| Financial income and expense               | 97              | 0.11%          | (1,324)         | -1.36%         | (1,227)          | -0.67%         |
| <b>Pre-tax profit</b>                      | <b>1,867</b>    | <b>2.17%</b>   | <b>3,582</b>    | <b>3.69%</b>   | <b>5,449</b>     | <b>2.97%</b>   |
| Income taxes estimated                     | (850)           | -0.99%         | (1,334)         | -1.37%         | (2,184)          | -1.19%         |
| <b>Net profit (loss) for the period</b>    | <b>1,017</b>    | <b>1.18%</b>   | <b>2,248</b>    | <b>2.31%</b>   | <b>3,265</b>     | <b>1.78%</b>   |

**Income statement - Comparison between 2<sup>nd</sup> quarter of 2015 and 2<sup>nd</sup> quarter of 2014**  
(in thousands of Euro)

|  | <b>Q2 2015</b>  | <b>%</b>       | <b>Q2 2014</b>  | <b>%</b>       |
|--|-----------------|----------------|-----------------|----------------|
| <b>Revenues from sales and services</b>    | <b>93,065</b>   | <b>95.79%</b>  | <b>78,060</b>   | <b>101.77%</b> |
| Change in inventories of finished products | 1,913           | 1.97%          | (3,433)         | -4.48%         |
| Other revenues                             | 2,179           | 2.24%          | 2,076           | 2.71%          |
| <b>Value of Production</b>                 | <b>97,157</b>   | <b>100.00%</b> | <b>76,703</b>   | <b>100.00%</b> |
| Raw, ancillary and consumable materials    | (28,664)        | -29.50%        | (20,789)        | -27.10%        |
| Services, leases and rentals               | (35,980)        | -37.03%        | (29,672)        | -38.68%        |
| Personnel costs                            | (21,415)        | -22.04%        | (18,841)        | -24.56%        |
| Other operating expenses                   | (981)           | -1.01%         | (762)           | -0.99%         |
| <b>Cost of production</b>                  | <b>(87,040)</b> | <b>-89.59%</b> | <b>(70,064)</b> | <b>-91.34%</b> |
| <b>Gross operating profit</b>              | <b>10,117</b>   | <b>10.41%</b>  | <b>6,639</b>    | <b>8.66%</b>   |
| D&A expenses                               | (4,308)         | -4.43%         | (4,089)         | -5.33%         |
| Provisions and other impairments           | (903)           | -0.93%         | (1,449)         | -1.89%         |
| <b>Net operating profit</b>                | <b>4,906</b>    | <b>5.05%</b>   | <b>1,101</b>    | <b>1.44%</b>   |
| Financial income and expense               | (1,324)         | -1.36%         | (719)           | -0.94%         |
| <b>Pre-tax profit</b>                      | <b>3,582</b>    | <b>3.69%</b>   | <b>382</b>      | <b>0.50%</b>   |
| Income taxes estimated                     | (1,334)         | -1.37%         | (544)           | -0.71%         |
| <b>Net profit (loss) for the period</b>    | <b>2,248</b>    | <b>2.31%</b>   | <b>(162)</b>    | <b>-0.21%</b>  |

## **Consolidated Revenues**

Net revenues from sales reported a net increase from Euro 146.0 million as of 30 June 2014 to Euro 175.0 million as of 30 June 2015 (Euro +29.0 million).

### **Principal markets**

As noted above, the Group's results were very positive in all of the main macro-areas.

The United States was easily the top country for the Group, with growth of 15% in dollars. This positive effect is even greater in euros due to the significant appreciation of the US dollar compared to the first half of 2014.

Florida Tile continues to maintain double-digit growth, with sales up across all distribution channels. In addition, the Lea North America and Panariagroup USA Divisions are achieving very appealing growth on the whole.

The US market accounts for 37% of total revenues.

In the Italian market, which experienced considerable declines in sales in recent years, our Group has been able to post significant growth of 11%, partly through channel diversification. This figure is even more important in light of the fact that overall turnover in this sector decreased once again in the domestic market.

The Italian market's share of total sales is 21%.

In Europe, the Group also had positive performance with growth of 8%.

With the exception of the France-Belgium area, where competitors are having difficulty as well, satisfactory growth was reported in all other countries. In particular, we note once again the excellent performance in the Portuguese market (+24%), in which we are one of the top players, as well as good results in the German (+30%) and Eastern European (+25%, excluding Russia) markets.

European markets account for 30% of total sales.

Other markets (Asia, Oceania, Africa and the Americas) generated good growth in the half-year, with an overall increase of 11%.

Results improved in all of these areas compared to the first half of 2014. In particular, positive developments continue in the African market, driven by the Portuguese Business Unit.

The other markets account for 12% of total sales.

The contribution of revenues by the Group's foreign markets posted an all-time high in the first half of 2015, reaching 79% of turnover. Non-European markets now account for nearly 50% of revenues.

The Group's successful internationalisation guarantees risk diversification and significantly increases the possibility for it to promptly take advantage of development opportunities in the most appealing areas.

This has been possible thanks to strategic decisions made over the years, which resulted in the acquisition of important foreign businesses and the strengthening of sales structures devoted to foreign markets.

Today, the Group is highly international and firmly committed to continuing on its path of expansion.

### **Performance of the Group's Divisions**

The Italian Divisions (Panaria, Lea, Cotto d'Este and Fiordo), which were negatively impacted by the macro-economic environment in their markets (domestic and Western Europe) in past years, achieved good growth compared to the first half of 2014. The Cotto d'Este Division particularly contributed in that sense, as it was able to achieve excellent sales performance thanks to its new organisational structure.

The Panariagroup Trade Division, which is focused on the markets of Asia and Oceania (to which the Eastern European markets were recently added), continues with the positive trend observed in recent years, with revenue growth of 11% compared to the first half of 2014.

Turnover increased significantly in the Private Label Division (toll manufacturing) with respect to the first half of last year. This Division's success bears witness to the appeal of the quality and technological content of our products.

The Gres Panaria Portugal Division also had excellent results with both brands marketed (Margres and Love Tiles). As noted previously, sale levels were excellent in the domestic

market, and good results were also achieved in the main European markets (particularly in Germany) and in Africa.

The Portuguese company offers the market a very attractive and complete product range in terms of price as well as quality, with two complementary catalogues (Love Tiles specialised in coverings and Margres specialised in flooring).

The US Divisions continued on their path of growth, outperforming overall market results. Florida Tile has had excellent performance and remains our main player in the US market with a diversified distribution model covering multiple channels to ensure a widespread presence. Performance was also very good for the Lea North America Division. Furthermore, Panariagroup USA's considerable sales network reorganisation is currently being completed.

The success of the collections presented at the sector's most important US trade show (Coverings), held in April 2015, further guarantees that current growth trends will be maintained.



## Operating results

Gross Operating Profit came to Euro 16.4 million, representing 9.0% of the Value of Production (Euro 9.4 million as of 30 June 2014, or 6.5% of the Value of Production), an improvement of Euro 7.0 million.

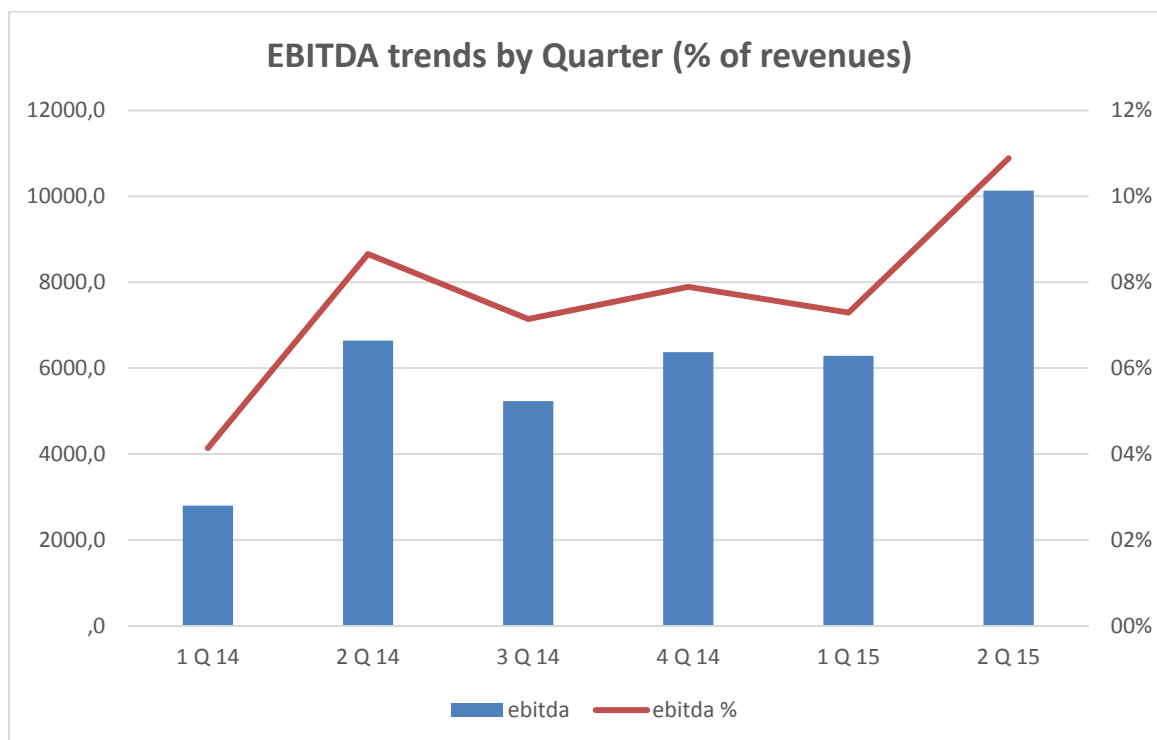
The impact of the “incremental margin” of Euro 7.0 million on the “incremental revenues” of Euro 29.0 million was 24%.

All Divisions contributed to the improvement in Gross Operating Profit, particularly the US Division.

Margins improved as a result of the combination of significant revenue growth and the increased use of production capacity at Group plants.

In addition, the second quarter of 2015 benefitted from a positive effect of roughly Euro 0.5 million compared to the same period of the previous year deriving from reduced energy costs. We expect even greater savings in the second half of the year.

Operating margins have been evidently and consistently improving for some 18 months:



Performance in the second quarter of 2015 was clearly better than the last 18 months, confirming the Group's robust recovery.

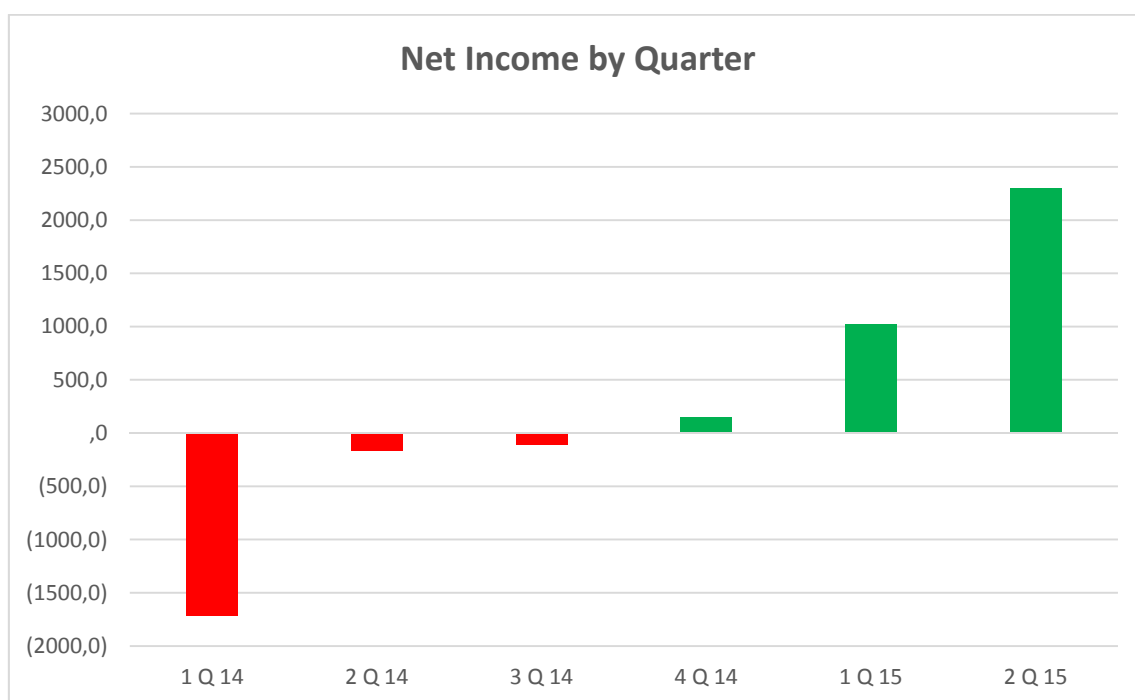
The net operating profit was Euro 6.7 million (loss of Euro 0.2 million as at 30 June 2014), an improvement of Euro 6.9 million.

Amortisation and depreciation were up compared to the first half of 2014, but their impact on revenues was down considerably.

Financial expenses and income were down slightly compared to the first half of 2014 due to the positive economic effect of the appreciation of the US dollar compared to the euro and the decrease in interest expense.

The Consolidated Net Result is a profit of Euro 3.3 million (versus a loss of Euro 1.9 million at 30 June 2014), an improvement of Euro 5.2 million.

We would like to highlight the very positive Net Result, which was the fruit of a progressive improvement that started in the second quarter of 2014, shown in the chart below:



## Summary of the Reclassified Consolidated Balance sheet

(in thousands of Euro)

|   | 06/30/15         | 03/31/15        | 12/31/14        | 06/30/14        |
|---|------------------|-----------------|-----------------|-----------------|
| Inventories                                     | 137,563          | 138,242         | 129,837         | 121,688         |
| Accounts Receivable                             | 88,500           | 81,145          | 69,877          | 78,988          |
| Other current assets                            | 10,753           | 10,861          | 9,077           | 8,686           |
| <b>CURRENT ASSETS</b>                           | <b>236,816</b>   | <b>230,248</b>  | <b>208,791</b>  | <b>209,362</b>  |
| Account Payables                                | (73,273)         | (63,057)        | (58,633)        | (57,067)        |
| Other current liabilities                       | (27,852)         | (25,207)        | (25,119)        | (27,488)        |
| <b>CURRENT LIABILITIES</b>                      | <b>(101,125)</b> | <b>(88,264)</b> | <b>(83,752)</b> | <b>(84,555)</b> |
| <b>NET WORKING CAPITAL</b>                      | <b>135,691</b>   | <b>141,984</b>  | <b>125,039</b>  | <b>124,807</b>  |
| Goodwill  | 8,139            | 8,139           | 8,139           | 8,139           |
| Intangible assets                               | 3,380            | 3,067           | 2,202           | 2,063           |
| Tangible assets                                 | 94,368           | 91,870          | 89,851          | 88,500          |
| Equity Investments and other financial assets   | 187              | 358             | 458             | 357             |
| <b>FIXED ASSETS</b>                             | <b>106,074</b>   | <b>103,434</b>  | <b>100,650</b>  | <b>99,059</b>   |
| Receivables due after following year            | 887              | 1,061           | 1,064           | 956             |
| Provision for termination benefits              | (6,487)          | (6,511)         | (6,575)         | (6,073)         |
| Provision for risk and charge                   | (4,322)          | (4,160)         | (4,230)         | (4,158)         |
| Deferred tax assets                             | 11,911           | 13,779          | 14,111          | 14,149          |
| Other payables due after the year               | (2,982)          | (2,716)         | (2,647)         | (1,155)         |
| <b>ASSET AND LIABILITIES DUE AFTER THE YEAR</b> | <b>(993)</b>     | <b>1,453</b>    | <b>1,723</b>    | <b>3,719</b>    |
| <b>NET CAPITAL EMPLOYED</b>                     | <b>240,772</b>   | <b>246,871</b>  | <b>227,412</b>  | <b>227,585</b>  |
|   |                  |                 |                 |                 |
| Short term financial assets                     | (5,756)          | (2,807)         | (2,932)         | (6,822)         |
| Short term financial debt                       | 53,416           | 50,623          | 38,997          | 44,569          |
| <b>NET SHORT TERM FINANCIAL DEBT</b>            | <b>47,660</b>    | <b>47,816</b>   | <b>36,065</b>   | <b>37,747</b>   |
| Mid-Long term financial debt                    | 38,306           | 44,201          | 44,227          | 48,106          |
| <b>NET FINANCIAL POSITION</b>                   | <b>85,966</b>    | <b>92,017</b>   | <b>80,292</b>   | <b>85,853</b>   |
| Group Shareholders' Equity                      | 154,806          | 154,854         | 147,120         | 141,732         |
| <b>SHAREHOLDERS' EQUITY</b>                     | <b>154,806</b>   | <b>154,854</b>  | <b>147,120</b>  | <b>141,732</b>  |
| <b>TOTAL SOURCES OF FUNDS</b>                   | <b>240,772</b>   | <b>246,871</b>  | <b>227,412</b>  | <b>227,585</b>  |

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

### Net Working Capital

Net Working Capital increased by Euro 10.9 million compared to 30 June 2014 (+9%). Euro 7.4 million of this change was the result of the higher value of the US Business Unit's balance

sheet balances due to the considerable appreciation of the dollar compared to the euro (20%). Net Working Capital was up by Euro 3.5 million at like-for-like exchange rates. The percentage increase in NWC was lower than the increase in revenues, triggering an improvement in the NWC/Revenues ratio.

Analysing the items that make up Net Working Capital, it can be seen that the value of inventories was heavily influenced by the effect of the dollar (Euro +8.5 million). The change in inventories (+13%) is therefore lower than the increase in revenues, with an improvement in the turnover rate.

Trade receivables were up by 12%, also to a lesser extent than the increase in revenues. Therefore, the Group's "days sales outstanding" also improved.

The significant growth in amounts due to suppliers reflects the considerable increase in production volumes and investments made.

We firmly intend to further improve the Net Working Capital/Revenues ratio.

### **Non-current assets**

Non-current assets have increased by Euro 5.4 million since the start of the year.

The main changes are:

- the net investments equal to Euro 12.2 million which include Euro 6.1 million in the Italian Business Unit, Euro 4.8 million in the Portuguese Business Unit, and Euro 1.3 million in the US Business Unit.
- the higher value of fixed assets of the US sub-consolidation expressed in Euro, because of the appreciation of the dollar since the end of 2014, of Euro 1.9 million.
- depreciation and amortisation for the period, i.e. Euro 8.4 million.

Amongst investments under way, we note the launch for all Group Business Units of the IT system integration project involving the adoption of a single platform (SAP). This project is very important, because it is part of the Panariagroup's internationalisation strategy. The implementation of this system will help us to improve our processes by increasingly aligning ourselves with best practices and will ensure standardised management in all Group companies, both in Italy and abroad, thereby simplifying interaction amongst the Business Units.

## Net Financial Position

**Financial cash flow**  
(thousands euro)

|  | 06/30/15      | 03/31/15      | 12/31/14      | 06/30/14      |
|--|---------------|---------------|---------------|---------------|
| <b>Net financial position (debt) - beginning</b>               | <b>(80.2)</b> | <b>(80.2)</b> | <b>(90.9)</b> | <b>(90.9)</b> |
| Net Result for the period                                      | 3.3           | 1.0           | (1.8)         | (1.9)         |
| D & A  | 8.4           | 4.1           | 16.7          | 8.0           |
| Net Variation Provisions                                       | 3.6           | 1.0           | 0.0           | (0.6)         |
| Non monetary changes   | (0.3)         | (0.4)         | (1.0)         | 0.0           |
| <b>Internal operating Cash flow</b>                            | <b>15.0</b>   | <b>5.7</b>    | <b>13.9</b>   | <b>5.5</b>    |
| Change in net working capital and other assets and liabilities | (8.0)         | (12.2)        | 11.3          | 5.1           |
| Net Investments  | (12.1)        | (4.2)         | (13.6)        | (5.8)         |
| Exchange rate diff. from US\$ financial statement conversions  | (0.7)         | (1.1)         | (0.9)         | 0.3           |
| <b>Net financial position (debt) - final</b>                   | <b>(86.0)</b> | <b>(92.0)</b> | <b>(80.2)</b> | <b>(85.9)</b> |

The Net Financial Position clearly improved with respect to the previous quarter, and is substantially in line as at 30 June 2015. Moreover, as the NFP remained at the same levels as last year but the Gross Operating Profit increased significantly, there was an improvement in the important NFP/GOP ratio, which continues to be one of the main indicators monitored by the management.

## **Segment information**

The application of IFRS 8 – Operating Segments became compulsory on 1 January 2009. This standard requires the identification of operating segments with reference to the system of internal reporting used by senior management to allocate resources and assess performance.

By contrast, the previous standard, IAS 14 – Segment Reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits; the system of reporting used was only a starting point for such identification.

In terms of their economic and financial characteristics, the products distributed by the Group are not significantly different from each other in terms of product nature, nature of the production process, distribution channels, geographical distribution or types of customer. Accordingly, considering the requirements specified in paragraph 12 of the Standard, the analysis called for is unnecessary since the information would not be useful to readers of the financial statements.

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

- The breakdown of revenues by principal geographical area and by type of product is provided in the table presented in the earlier section on "Revenues",
- The breakdown of Total Assets by geographical location is shown below:

### **CONSOLIDATED FINANCIAL STATEMENT**

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

| <b>ASSETS</b>                                  | <b>Italy</b>   | <b>Europe</b> | <b>USA</b>     | <b>Other</b>  | <b>06/30/2015</b> |
|--|----------------|---------------|----------------|---------------|-------------------|
| <b>CURRENT ASSETS</b>                          | <b>115,319</b> | <b>46,348</b> | <b>68,626</b>  | <b>13,036</b> | <b>243,330</b>    |
| Inventories                                    | 71,333         | 20,557        | 45,673         | 0             | 137,563           |
| Trade Receivables                              | 36,110         | 22,101        | 17,252         | 13,036        | 88,500            |
| Due from tax authorities                       | 2,715          | 1,551         | 639            | 0             | 4,905             |
| Other current assets                           | 4,231          | 350           | 2,025          | 0             | 6,606             |
| Cash and cash equivalents                      | 930            | 1,789         | 3,037          | 0             | 5,756             |
| <b>NON-CURRENT ASSETS</b>                      | <b>51,453</b>  | <b>43,990</b> | <b>38,538</b>  | <b>182</b>    | <b>134,163</b>    |
| Goodwill                                       | 350            | 7,789         | 0              | 0             | 8,139             |
| Intangible assets                              | 1,917          | 125           | 1,338          | 0             | 3,380             |
| Property, plant and equipment                  | 37,592         | 34,293        | 22,483         | 0             | 94,368            |
| Financial assets                               | 4              | 1             | 9,080          | 182           | 9,267             |
| Deferred tax assets                            | 11,037         | 1,782         | 5,303          | 0             | 18,122            |
| Other non-current assets                       | 553            | 0             | 334            | 0             | 887               |
| <b>TOTAL ASSETS</b>                            | <b>166,772</b> | <b>90,338</b> | <b>107,164</b> | <b>13,218</b> | <b>377,493</b>    |
|  | <b>Italy</b>   | <b>Europe</b> | <b>USA</b>     | <b>Other</b>  | <b>TOTAL</b>      |
| <b>Net investments in tangible assets 2015</b> | <b>6,159</b>   | <b>4,801</b>  | <b>1,282</b>   | <b>0</b>      | <b>12,242</b>     |

## **Research and development activities**

Research and development activities have continued in 2015 within the sector of reference in which our Group has always distinguished itself.

Research and development activities include applied research in our laboratories and the adoption of advanced production technologies.

These two activities, added to the constant technological upgrading of facilities aimed at seeking solutions in production processes to enable cost savings, have allowed us to develop product lines with a high technical content and aesthetic innovations that guarantee us supremacy in the high/luxury end of the ceramic tile market.

The new product lines completed and in the course of being completed in 2015, especially those to be presented, as usual, at the 2015 CERSAIE trade fair (the most important trade fair in the world for the industry, held at the end of September) are expected to be well received, and the positive outcome of these innovations should be capable of generating good results in terms of turnover, with a favourable impact on the business.

## **Transactions with parent companies, affiliates and related parties**

As regards the condensed half-yearly consolidated financial statements for 2015, related party transactions are explained in the explanatory notes.

In compliance with Consob Communication DEM/6064293 of 28 July 2006, we hereby specify that the Group's interest in carrying out the related-party transactions described in the explanatory notes is made explicitly manifest by the fact that almost all transactions consist of leases of industrial facilities used by the Parent Company for the conduct of its business.

## **Reconciliation of the parent company's equity and net profit with the corresponding consolidated amounts**

As required by Consob Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net profit with the corresponding consolidated amounts reported at 30 June 2015 (in thousands of Euro):

|  | <b>2015-06</b> |                          | <b>2014-12</b> |                          | <b>2014-06</b> |                          |
|--|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|
|  | <b>Equity</b>  | <b>Net Income (Loss)</b> | <b>Equity</b>  | <b>Net Income (Loss)</b> | <b>Equity</b>  | <b>Net Income (Loss)</b> |
| <b>As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent Company)</b>                                     | <b>142,472</b> | <b>(1,191)</b>           | <b>143,666</b> | <b>(2,520)</b>           | <b>143,892</b> | <b>(2,792)</b>           |
| Difference between the book value of equity investments and their value using the equity method                                | 13,189         | 5,534                    | 3,995          | 4,074                    | (1,703)        | 1,087                    |
| Elimination of unrealised gains arising on the intercompany transfer of inventories  | (1,496)        | (422)                    | (1,074)        | (154)                    | (940)          | (20)                     |
| Reversal of exchange losses (gains) on intercompany loan   | 0              | (765)                    | 0              | (1,247)                  | 0              | (106)                    |
| Alignment to Group depreciation's rates  | 118            | (11)                     | 129            | (22)                     | 139            | (11)                     |
| Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments | 537            | 170                      | 367            | 73                       | 306            | 12                       |
| Elimination of unrealised gains arising from dividend distribution   | 0              | 0                        | 0              | (2,000)                  | 0              | 0                        |
| Rivalutazione valore contabile di Partecipazioni in società controllate  | 0              | 0                        | 0              | 0                        | 0              | 0                        |
| Others   | (14)           | (50)                     | 36             | (45)                     | 38             | (42)                     |
| <b>Net effect of consolidation adjustments</b>   | <b>12,334</b>  | <b>4,456</b>             | <b>3,453</b>   | <b>679</b>               | <b>(2,160)</b> | <b>920</b>               |
| <b>As per consolidated financial statements</b>  | <b>154,806</b> | <b>3,265</b>             | <b>147,119</b> | <b>(1,841)</b>           | <b>141,732</b> | <b>(1,872)</b>           |



## **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 2015, the Company has renewed a stock buy-back programme which stood as follows at 30 June 2015:

| <i>No. of shares</i> | <i>% equity</i> | <i>Average book value</i> | <i>Amount</i>       |
|----------------------|-----------------|---------------------------|---------------------|
| <b>432,234</b>       | <b>0.953%</b>   | <b>3.7347</b>             | <b>1,614,284.94</b> |

The number of treasury shares in the portfolio is the same as at 31 December 2014, as no purchases or sales were made during 2015.

Panariagroup Industrie Ceramiche S.p.A. does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during the first half of 2015; there are therefore no disclosures to be made in accordance with Article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

## **Atypical and/or unusual transactions**

As required by Consob Communication DEM/6064293 of 28 July 2006, we declare that there were no atypical and/or unusual transactions, as defined in the explanatory notes, during the first half of 2015.

## **Privacy**

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

In particular, pursuant to point 26 of the this same Attachment B), the company has properly prepared a Policy Document on Privacy for the year 2015 that has been deposited at the head office and may be consulted by authorised persons and/or the appropriate authorities.

## **Significant subsequent events**

There were no significant events in the period following the closing of the financial statements on 30 June 2015.

## **Outlook for Group operations**

The revenue and margin forecasts provided when the 2014 financial statements were prepared have been confirmed. Indeed, sales have exceeded our expectations.

Net Working Capital ratios and the Net Financial Position/Gross Operating Profit ratio have improved.

An improvement in results compared to 2014 is also forecast for the second half of 2015. In addition, we expect a good progression in revenues, although it will be difficult for them to reach the same levels as the first half of 2015. In terms of costs, we will achieve additional savings in energy costs, which however will be partly offset by lower production volumes compared to the first half of 2015 due to seasonal factors. Capital ratios should improve further in the second half of the year.

In the medium term, we believe that the Group is capable of continuing to grow and that margins will rise to more satisfactory levels. This will be achieved by maintaining the current performance of foreign Business Units and also as a result of the expected improvement in the Italian Business Unit due to the reorganisation activities under way.

To support these development plans, a suitable level of investments will be required to maintain our technological leadership and guarantee an improvement in production efficiency.

The common thread characterising the recovery of the last 2 years has been our awareness of changes in the rules of economic activity, which has also led us to re-examine those factors and elements that constituted the source of our success in the past. We are convinced that there is still ample space for additional important improvements.

## **Report on Corporate Governance and the Ownership Structure**

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

## **Risk management**

In compliance with disclosure requirements for listed companies, Italian Law 262/2005 amended the Issuer Regulations, introducing the requirement for directors of such companies to identify, evaluate and manage risks relating to the Company's activities. The main types of risk that have been identified are as follows:

### **GENERAL ECONOMIC RISK**

Again in 2015, some of the main markets in which the Group carries on business have not been very dynamic and have been impacted by generalised uncertainty for businesses and households.

The precarious state of market conditions has been influenced once again by a generalised credit squeeze for both consumers and companies. This liquidity shortage is having negative repercussions on the industrial development of many business sectors, including our own. Should this situation of weakness and uncertainty become protracted, the activities, strategies and prospects for our Group could be adversely affected, with a negative impact on the balance sheet, income statement and cash flows of the Group.

### **CREDIT AND LIQUIDITY RISK**

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

### **RISK OF DEPENDENCE ON KEY PERSONNEL**

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

## **MARKET RISK**

### **Competition risk:**

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian firms, are: (i) producers in emerging markets, who are particularly competitive price-wise and target the lower end of the market; (ii) European producers, some of whom are able to compete at the higher end of the market, with average prices that are lower than those of Italian companies, due to lower production costs. Our Group believes that its positioning in the high-end luxury market segment – a difficult one for low-cost producers to enter - the renown of its trademarks, the wide range of product lines offered and the particular care and attention given to design, all represent competitive advantages over the products offered by such competitors. Increased competition may 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 2014 and 2015. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term.

## **Environmental protection, personnel costs and regulations relating to the sector**

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain chemical substances, 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 the first half of 2015 consisted of 1,581 persons, an increase of 23 employees compared with the average figure for 2014.

## **Consob Resolution 11971 of 14 May 1999**

In compliance with the provisions of this resolution, the following table reports the interests in Panariagroup and its subsidiaries held by directors, statutory auditors, general managers, key management personnel and their spouses, unless legally separated, and minor children, directly or through companies under their control, trust companies or third parties, as reported in the shareholders' register, notices received and other information obtained from the same directors, statutory auditors, general managers and key management personnel:

| - ART. 79 -  |                    |  |  |   |                                     |                 |                   |
|--|--------------------|--|--|---|-------------------------------------|-----------------|-------------------|
| TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 06/30/2014 |                    |  |  |   |                                     |                 |                   |
| Name and Last Name   | Investment held in | Number of shares held at the end of the prior year | Number of shares purchased in the 1st half year 2015 | Number of shares sold in the 1st half year 2015 | Number of shares held at 06/30/2015 | Type of holding | Type of ownership |
| Mussini Giuliano   | Panariagroup       | 597,700  | 10,000   | 240,660   | 367,040                             | direct          | property          |
|  |                    | 4,400  |  |   | 4,400                               | spouse          | property          |
| Mussini Giovanna   | Panariagroup       | 250,641  |  |   | 250,641                             | direct          | property          |
| Pini Giuliano  | Panariagroup       | 77,302   |  |   | 77,302                              | direct          | property          |
|  |                    | 7,880  |  |   | 7,880                               | spouse          | property          |
| Mussini Emilio   | Panariagroup       | 139,436  |  | 10,000  | 129,436                             | direct          | property          |
|  |                    | 13,080   |  |   | 13,080                              | spouse          | property          |
| Mussini Paolo  | Panariagroup       | 1,000  |  |   | 1,000                               | direct          | property          |
| Palandri Enrico  | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Bonfiglioli Sonia  | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Tunioli Roberto  | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Onofri Paolo   | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Muserra Francesca  | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Ascari Pier Giovanni   | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| Pincelli Vittorio  | Panariagroup       | -  |  |   | -                                   | direct          | property          |
| <b>Totale</b>  |                    | <b>1,091,439</b>                                   | <b>10,000</b>  | <b>250,660</b>                                  | <b>850,779</b>                      |                 |                   |

## **ATTACHMENTS**

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 30 June 2015
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2014
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

Sassuolo 7 August 2015

The Chairman  
**Mussini Emilio**

**Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position**  
**figures at 06/30/2015**

| STATEMENT OF FINANCIAL POSITION - IFRS    |                   |     | RECLASSIFIED STATEMENT OF FINANCIAL POSITION      |                  |          |
|---|-------------------|-----|---|------------------|----------|
| ASSETS                                    | 06/30/2015        | RIF |   | 06/30/2015       | RIF      |
| <b>CURRENT ASSETS</b>                     | <b>243,330</b>    |     | Inventories                                       | 137,563          | A        |
| Inventories                               | 137,563           | A   | Trade Receivable                                  | 88,500           | B        |
| Trade Receivables                         | 88,500            | B   | Other current assets                              | 10,753           | C+D-(*)  |
| Due from tax authorities                  | 4,905             | C   | <b>CURRENT ASSETS</b>                             | <b>236,816</b>   |          |
| Other current assets                      | 6,606             | D   | Trade Payables                                    | (73,273)         | N        |
| Cash and cash equivalents                 | 5,756             | E   | Other current liabilities                         | (27,852)         | O + P    |
| <b>NON-CURRENT ASSETS</b>                 | <b>134,163</b>    |     | <b>CURRENT LIABILITIES</b>                        | <b>(101,125)</b> |          |
| Goodwill                                  | 8,139             | F   | <b>NET WORKING CAPITAL</b>                        | <b>135,691</b>   |          |
| Intangible assets                         | 3,380             | G   | Goodwill  | 8,139            | F        |
| Property, plant and equipment             | 94,368            | H   | Intangible assets                                 | 3,380            | G        |
| Financial assets                          | 9,267             | I   | Property, plant and equipment                     | 94,368           | H        |
| Deferred tax assets                       | 18,122            | J   | Equity Investments and other financial assets     | 187              | I - (**) |
| Other non-current assets                  | 887               | L   | <b>FIXED ASSETS</b>                               | <b>106,074</b>   |          |
| <b>TOTAL ASSETS</b>                       | <b>377,493</b>    |     | Receivables due beyond 12 months                  | 887              | L        |
|   |                   |     | Employee severance indemnities                    | (6,487)          | Q        |
| <b>LIABILITIES AND EQUITY</b>             | <b>06/30/2015</b> |     | Provision for risk and charge                     | (4,322)          | S        |
| <b>CURRENT LIABILITIES</b>                | <b>155,299</b>    |     | Provision for deferred taxes                      | 11,911           | J+R      |
| Due to banks and other sources of finance | 54,174            | M   | Other liabilities due beyond 12 months            | (2,982)          | U        |
| Trade payables                            | 73,273            | N   | <b>ASSET AND LIABILITIES DUE BEYOND 12 MONTHS</b> | <b>(993)</b>     |          |
| Due to tax authorities                    | 3,130             | O   | <b>NET CAPITAL EMPLOYED</b>                       | <b>240,772</b>   |          |
| Other current liabilities                 | 24,722            | P   | Short term financial assets                       | (5,756)          | E        |
| <b>NON-CURRENT LIABILITIES</b>            | <b>67,388</b>     |     | Short term financial indebtedness                 | 53,416           | M - (*)  |
| Employee severance indemnities            | 6,487             | Q   | <b>NET SHORT TERM FINACIAL INDEBTEDNESS</b>       | <b>47,660</b>    |          |
| Deferred tax liabilities                  | 6,211             | R   | Mid-Long term financial debt                      | 38,306           | T - (**) |
| Provisions for risks and charges          | 4,322             | S   | <b>NET MID-LONG TERM FINACIAL INDEBTEDNESS</b>    | <b>38,306</b>    |          |
| Due to banks and other sources of finance | 47,386            | T   | <b>NET FINANCIAL POSITION</b>                     | <b>85,966</b>    |          |
| Other non-current liabilities             | 2,982             | U   | Group Shareholders' Equity                        | 154,806          | V+W+X    |
| <b>TOTAL LIABILITIES</b>                  | <b>222,687</b>    |     | <b>SHAREHOLDERS' EQUITY</b>                       | <b>154,806</b>   |          |
| <b>EQUITY</b>                             | <b>154,806</b>    |     | <b>TOTAL SOURCES OF FOUNDS</b>                    | <b>240,772</b>   |          |
| Share capital                             | 22,678            | V   |   |                  |          |
| Reserves                                  | 128,863           | W   |   |                  |          |
| Net profit (loss) for the year            | 3,265             | X   |   |                  |          |
| <b>TOTAL LIABILITIES AND EQUITY</b>       | <b>377,493</b>    |     |   |                  |          |

(\*) CURRENT PORTION OF IRB 758  
Classified under current assets in the IFRS satatement of financial position  
Included in the short-term financial indebtedness in the reclassified statement of financial position

(\*\*) NON - CURRENT PORTION OF IRB 9,080  
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 12/31/2014**

| STATEMENT OF FINANCIAL POSITION - IFRS    |                   |     | RECLASSIFIED STATEMENT OF FINANCIAL POSITION      |                 |          |
|---|-------------------|-----|---|-----------------|----------|
| ASSETS                                    | 12/31/2015        | RIF |   | 12/31/2015      | RIF      |
| <b>CURRENT ASSETS</b>                     | <b>212,420</b>    |     | Inventories                                       | 129,837         | A        |
| Inventories                               | 129,837           | A   | Trade Receivable                                  | 69,877          | B        |
| Trade Receivables                         | 69,877            | B   | Other current assets                              | 9,077           | C+D-(*)  |
| Due from tax authorities                  | 5,006             | C   | <b>CURRENT ASSETS</b>                             | <b>208,791</b>  |          |
| Other current assets                      | 4,768             | D   | Trade Payables                                    | (58,633)        | N        |
| Cash and cash equivalents                 | 2,932             | E   | Other current liabilities                         | (25,120)        | O + P    |
| <b>NON-CURRENT ASSETS</b>                 | <b>131,003</b>    |     | <b>CURRENT LIABILITIES</b>                        | <b>(83,753)</b> |          |
| Goodwill                                  | 8,139             | F   | <b>NET WORKING CAPITAL</b>                        | <b>125,038</b>  |          |
| Intangible assets                         | 2,202             | G   | Goodwill  | 8,139           | F        |
| Property, plant and equipment             | 89,851            | H   | Intangible assets                                 | 2,202           | G        |
| Financial assets                          | 9,421             | I   | Property, plant and equipment                     | 89,851          | H        |
| Deferred tax assets                       | 20,326            | J   | Equity Investments and other financial assets     | 357             | I - (**) |
| Other non-current assets                  | 1,064             | L   | <b>FIXED ASSETS</b>                               | <b>100,549</b>  |          |
| <b>TOTAL ASSETS</b>                       | <b>343,423</b>    |     | Receivables due beyond 12 months                  | 1,064           | L        |
|   |                   |     | Employee severance indemnities                    | (6,575)         | Q        |
| <b>LIABILITIES AND EQUITY</b>             | <b>12/31/2015</b> |     | Provision for risk and charge                     | (4,230)         | S        |
| <b>CURRENT LIABILITIES</b>                | <b>124,477</b>    |     | Provision for deferred taxes                      | 14,111          | J+R      |
| Due to banks and other sources of finance | 40,724            | M   | Other liabilities due beyond 12 months            | (2,647)         | U        |
| Trade payables                            | 58,633            | N   | <b>ASSET AND LIABILITIES DUE BEYOND 12 MONTHS</b> | <b>1,723</b>    |          |
| Due to tax authorities                    | 3,198             | O   | <b>NET CAPITAL EMPLOYED</b>                       | <b>227,310</b>  |          |
| Other current liabilities                 | 21,922            | P   | Short term financial assets                       | (2,932)         | E        |
| <b>NON-CURRENT LIABILITIES</b>            | <b>71,827</b>     |     | Short term financial indebtedness                 | 40,027          | M - (*)  |
| Employee severance indemnities            | 6,575             | Q   | <b>NET SHORT TERM FINANCIAL INDEBTEDNESS</b>      | <b>37,095</b>   |          |
| Deferred tax liabilities                  | 6,215             | R   | Mid-Long term financial debt                      | 43,096          | T - (**) |
| Provisions for risks and charges          | 4,230             | S   | <b>NET MID-LONG TERM FINANCIAL INDEBTEDNESS</b>   | <b>43,096</b>   |          |
| Due to banks and other sources of finance | 52,160            | T   | <b>NET FINANCIAL POSITION</b>                     | <b>80,191</b>   |          |
| Other non-current liabilities             | 2,647             | U   | Group Shareholders' Equity                        | 147,119         | V+W+X    |
| <b>TOTAL LIABILITIES</b>                  | <b>196,304</b>    |     | <b>SHAREHOLDERS' EQUITY</b>                       | <b>147,119</b>  |          |
| <b>EQUITY</b>                             | <b>147,119</b>    |     | <b>TOTAL SOURCES OF FUNDS</b>                     | <b>227,310</b>  |          |
| Share capital                             | 22,678            | V   |   |                 |          |
| Reserves                                  | 126,282           | W   |   |                 |          |
| Net profit (loss) for the year            | (1,841)           | X   |   |                 |          |
| <b>TOTAL LIABILITIES AND EQUITY</b>       | <b>343,423</b>    |     |   |                 |          |

(\*) 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 BETWEEN THE SUMMARY OF CASH FLOWS AND THE IFRS-FORMAT CASH FLOW STATEMENT**

### **Foreword:**

*The summary of cash flows presented in the directors' report measures the change in total net financial indebtedness, while the IFRS-format cash flow statement measures the change in short-term net financial indebtedness.*

## **PANARIAGROUP CONSOLIDATED FINANCIAL STATEMENT**

### **NET FINANCIAL POSITION**

(THOUSANDS OF EURO)

|            | 06/30/2015   |
|------------|--|
|            | Short-term securities (758)  |
| <b>A</b>   | Cash and cash equivalents (5,756)  |
|            | <b>Short-term financial assets (6,514)</b>                               |
|            | Long-term securities (9,080)   |
|            | <b>Long-term financial assets (9,080)</b>                                |
| <b>B</b>   | Due to banks 28,819  |
|            | Current portion of long-term loans 24,349                                |
|            | Leases 1,006   |
|            | <b>Short-term financial indebtedness 54,174</b>                          |
|            | Non-current portion of long-term loans 37,536                            |
|            | Leases 9,850   |
|            | <b>Long-term financial indebtedness 47,386</b>                           |
|            | <b>Net financial indebtedness 85,966</b>                                 |
| <b>A+B</b> | <b>Net short-term financial indebtedness 23,063</b>                      |
|            | (as reported in IFRS cash flow statement)                                |
| <b>C</b>   | <b>Total net financial position 85,966</b>                               |
|            | (as reported in summary of cash flow contained in the Director's Report) |

# **PANARIAGROUP** **CONSOLIDATED FINANCIAL STATEMENT**

## **CASH FLOW STATEMENT - IFRS**

(THOUSAND OF EURO)

| (Thousands of Euro) )   |                 | 06/30/2015      |                  |
|---|-----------------|-----------------|------------------|
| <b>A - OPERATIONS</b>   |                 |                 |                  |
| Profit (loss) of the year   | 3,265           |                 | <b>A</b>         |
| Depreciation and amortisation   | 8,436           |                 | <b>B</b>         |
| Deferred tax liabilities (assets)   | 2,606           |                 | <b>C</b>         |
| Net change in provisions  | 1,000           |                 | <b>D</b>         |
| Non monetary changes allocated to Equity  | (17)            |                 | <b>P</b>         |
| Tax effect on elimination of intercompany exchange rates                          | (290)           |                 | <b>E</b>         |
| <i>Cash flow (absorption) from operations prior to changes in working capital</i> | <i>15,000</i>   |                 |                  |
| (Increase)/(decrease) in trade receivables  | (18,032)        |                 |                  |
| (Increase)/(decrease) in inventories  | (4,660)         |                 |                  |
| (Increase)/(decrease) in trade payables   | 13,210          |                 |                  |
| Net change in other assets/liabilities  | 1,512           |                 |                  |
| <i>Cash flow (absorption) from operations due to changes in working capital</i>   | <i>(7,970)</i>  |                 | <b>F</b>         |
| <b>Total (A) Cash flow from operations</b>  | <b>7,030</b>    |                 |                  |
| <b>B - INVESTMENT ACTIVITY</b>  |                 |                 |                  |
| Net investment in tangible assets   | 168             |                 | <b>H</b>         |
| Net investment in financial assets  | -               |                 | <b>J</b>         |
| <b>Total (B) Cash Flow (absorption) from investment activities</b>                | <b>(12,076)</b> |                 | <b>K</b>         |
| <b>C - FINANCING ACTIVITY</b>   |                 |                 |                  |
| Increase in capital   | -               |                 |                  |
| Distribution of dividends   | -               |                 |                  |
| Other changes in equity   | -               |                 | <b>G</b>         |
| (Purchase) Sale of treasury shares  | -               |                 | <b>M</b>         |
| Net change in loans   | (7,481)         |                 |                  |
| <b>Total (C) Cash Flow (absorption) from financing activities</b>                 | <b>(7,481)</b>  |                 |                  |
| Opening net cash (indebtedness)   | (9,808)         |                 |                  |
| Change in the translation reserve   | (728)           |                 | <b>N</b>         |
| Net change in short-term net cash (indebtedness) (A+B+C)                          | (12,527)        |                 |                  |
| Closing net cash (indebtedness)   | (23,063)        |                 | <b>(X)</b>       |
| <b>Financial cash flow</b>  |                 |                 |                  |
| (thousands euro)  |                 | 06/30/2015      |                  |
| <b>Net financial position (debt) - beginning</b>                                  |                 | <b>(80,191)</b> |                  |
| Net Result for the period   | 3,265           |                 | <b>A</b>         |
| D & A   | 8,436           |                 | <b>B</b>         |
| Net Variation Provisions  | 3,606           |                 | <b>C+D</b>       |
| Non monetary changes  | (307)           |                 | <b>E+G+P</b>     |
| <b>Internal operating Cash flow</b>   | <b>15,000</b>   |                 |                  |
| Change in net working capital and other assets and liabilities                    | (7,970)         |                 | <b>F</b>         |
| Net Investments   | (12,076)        |                 | <b>H + J</b>     |
| Exchange rate diff. from US\$ financial statement conversions                     | (728)           |                 | <b>M + N + K</b> |
| <b>Net financial position (debt) - final</b>                                      | <b>(85,965)</b> |                 | <b>(Z)</b>       |