



## **ANNUAL REPORT 2015 - DRAFT**

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**Panariagroup Industrie Ceramiche**  
INDEPENDENT AUDITORS' REPORT



Panariagroup Industrie Ceramiche S.p.A.

Financial statements as at 31 December 2015

Independent auditor's report in accordance with articles 14  
and 16 of Legislative Decree n. 39, dated 27 January 2010

Independent auditor's report  
in accordance with articles 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

#### Report on the financial statements

We have audited the accompanying financial statements of Panariagroup Industrie Ceramiche S.p.A. , which comprise the statement of financial position as at 31 December 2015, and the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Directors' responsibility for the financial statements*

The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Panariagroup Industrie Ceramiche S.p.A as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

*Opinion on the consistency of the Directors' Report and of specific information of the Annual Report on Corporate Governance and the Company's Ownership Structure with the financial statements*

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report and of specific information of the Annual Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of the Directors' Report and of the Annual Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Directors' Report and the specific information of the Annual Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Panariagroup Industrie Ceramiche S.p.A. as at 31 December 2015.

Bologna, 30 March 2016

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 FINANCIAL STATEMENTS FOR THE YEAR 2015**

## **Introduction**

The financial statements for the year ended 31 December 2015 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 Leg. 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).

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Company 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 financial statements do not differ from those applied in the financial statements for the year ended 31 December 2014, with the exception of those international accounting standards which entered into effect as of 1 January 2015 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as of 1 January 2015"; refer to this section for more information. The application of these standards did not produce any significant effects.

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).

The majority shareholder of the Company is the holding company Finpanaria S.p.A.



## STRUCTURE OF THE GROUP

The structure of the Group at 31 December 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 floor and wall coverings under five distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo and Blustyle. The Group is mainly focused on the high-end and deluxe market segment and mainly sell porcelain gres product lines, both in Italy and abroad.

Gres **Panaria Portugal S.A.**, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000.00, 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 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 Ceramiche 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 2015 Financial Statements**

### **Results and significant events in 2015**

#### **Results**

Shareholders,

During 2015 expansion of the economy displayed growth rates below the expectations announced at the beginning of the year.

Growing uncertainty on the prospects of the emerging areas, also due to geo-political tensions, arose between the third and fourth quarters. That uncertainty particularly focused on China, which weighed on the overall economic scenario and generated diverse cyclical positions between the various world regions.

While economic recovery continued to strengthen in the USA with reduction of the unemployment rate, expectations of modest improvements in the Euro area were confirmed, also supported by resolution of the turbulence connected with the Greek crisis that brought an end to the tensions witnessed on the European financial markets. As regards the emerging countries, the slow-down in economic activity intensified as a result of the reduction in revenues from raw material exports (oil in particular) and the disinvestments of foreign investors, all of this accompanied by the growing expansion of the ISIS terrorist phenomenon.

In this context, the cyclical picture referring to the construction sector that is strictly tied to our Company's business, recorded changes in growth with differing trends between the various geographical areas: still static in the Euro area, slightly slowing down in the emerging areas and picking up in North America.

Despite this continuous seesaw context, the Company's revenues posted healthy growth compared to 2014, and this was due to increased volumes and constant commercial expansion over all major markets of reference.

In summary, the results of 2015 can be summarized as follows:

- Revenues from sales amounted to Euro 172.8 million, an increase of 9.7% with respect to 2014.
- Gross operating profit was equal to Euro 7.9 million (Euro 5.0 million in 2014).
- There was a net operating loss of Euro 3.6 million (loss of Euro 6.1 million in 2014).
- The net loss was equal to Euro 1.1 million (loss of Euro 2.5 million in 2014).

In connection with the Net Result for the Period of 2015, it was penalized by about Euro 1 million due to a non-recurring tax component. The reduction of the IRES rate ratified by the "Legge di Stabilità" (Stability Law), which will take effect starting in 2017, brought about the need to adjust the deferred tax assets.

Therefore, the result of the year would have been basically break-even if not for this effect.

The slight reversal in trend seen in 2014 when compared to the previous two-year period was even more strongly confirmed in 2015 with a significant increase in revenue.

Following a demanding period due to the difficult macroeconomic context and resulting need to reorganise the company in order to adapt it to the changed market conditions, we can consider 2015 as "the year of the reversal".

The increase in revenue is due to both the ability to earn market shares on all the major markets where we have operated by tradition (Italy and Eastern European markets) and the continuation to develop alternative markets and channels offering greater opportunities for growth.

Also in terms of profitability, some improvements were recorded with a positive change in the Gross Operating Profit (Euro 2.9 million), Net Operating Profit (Euro 2.5 million) and an overall Net Result of Euro 1.4 million.

Financially, the key amounts - financial position and net working capital - are holding at levels similar to those of last year.

### **Sector context: performance of the Italian competitors**

The year 2015 confirmed a substantial growth trend for the Italian ceramic sector, with sales increasing on foreign markets by about 5% while the domestic market was marked by consumption in line with the previous year.

More specifically, sales on the USA market rose (+22.8%), also because of the dollar appreciation, and on the Asian markets (+10.4%). Despite the slow-down of the French market, also the European Union countries posted an overall growth of 4%. Good progress was seen in the Eastern Europe markets, except for the Russian market that sustained a strong drop in imports due to devaluation of the ruble.

Our company increased its business volume by about 9%. The positive result was achieved thanks to good performance on the domestic market (+3.5%), outstanding performance on the European markets (+8.3%) and significant growth on the Overseas markets (+12.6%), on the whole achieving better results than the average performance of our Italian competitors. In order to meeting the increase in demand, the production facilities were used more than the previous year, with resulting economic benefits on the unit product cost.

## Significant events in the period

The **reorganisation**, which particularly affects the commercial areas, continued in 2015.

In terms of a commercial streamlining, the brands Panaria and Fiordo were unified into a single organisational unit; the objective is to ensure better market coverage and offer a wider range of products to the customers. We think that this operation can give positive results, similar to what happened in 2014 with the absorption of the Blustyle brand by the Cotto D'Este organisation.

Another important reorganisation involving the Italian business unit led to unification of the Marketing function in a single corporate entity after being originally managed on its own by the brands.

Centralisation offers the possibility of achieving important synergies in managing costs and standardizing merchandising tools with improved customer service. More attention will also be paid to setting the guidelines that can best exalt the distinguishing features of the Italian brands, leading to an enhanced and better targeted creativity, innovation and attention to the different market targets through development of the image and the communication projects of the individual brands.

An important **investments programme** started in 2015 and it is scheduled to be completed in 2016. The major investments are focussed on strengthening the Fiorano Modenese facility dedicated to the Gres Laminate.

The significant growth in sales of this type of product, of which Panariagroup is market leader, led to the total saturation of the Fiorano Modenese facility.

In consideration of the expected future growth, installation of a third production line began in the last quarter of the year, and it went into production in March 2016.

Another important investment was made at the Fiorano Modenese facility: the installation of an innovative polishing line for processing the Gres Laminate. This plant lets us expand the product range in order to develop an important market segment dedicated to large marble products which promise good potentials for development; the plant went into production in February 2016.

Technological upgrading continued at the other Italian production facilities, with six digital printing decoration machines added, and installation of a new choice line and a new rectification line for large sizes.

In the early months of 2015 the project to integrate the IT system started for all Group business units by adopting a single platform (SAP).

This project is highly important both in terms of extent of the investment and because it fits into Panariagroup's internationalisation strategy. Its implementation will let us improve our processes so that we are more and more in line with the best practices. It will also ensure us homogeneous management in all Group companies, Italian and foreign, and simplify interactions between the various business units.

Project plans for 2016 include starting up use of the new platform in the USA business unit (Florida Tile, Panariagroup USA and Lea North America), which was the one the most required a technological upgrade. The project will progressively extend to the Portuguese and Italian business units by 2017.



## Review of the Company's 2015 results

### **Restated Income statement at 31 December 2015 compared with 31 December 2014**

(in thousands of euro)

	31-Dec-15	%	31-Dec-14	%	var.
<b>Revenues from sales and services</b>	<b>172,838</b>	<b>94.34%</b>	<b>157,487</b>	<b>97.66%</b>	<b>15,351</b>
Change in inventories of finished products	1,484	0.81%	(3,629)	-2.25%	5,113
Other revenues	8,889	4.85%	7,396	4.59%	1,493
<b>Value of Production</b>	<b>183,211</b>	<b>100.00%</b>	<b>161,254</b>	<b>100.00%</b>	<b>21,957</b>
Raw, ancillary and consumable materials	(49,484)	-27.01%	(39,043)	-24.21%	(10,441)
Services, leases and rentals	(77,064)	-42.06%	(68,794)	-42.66%	(8,270)
Personnel costs	(47,062)	-25.69%	(46,616)	-28.91%	(446)
Other operating expenses	(1,743)	-0.95%	(1,833)	-1.14%	90
<b>Cost of production</b>	<b>(175,354)</b>	<b>-95.71%</b>	<b>(156,286)</b>	<b>-96.92%</b>	<b>(19,068)</b>
<b>Gross operating profit</b>	<b>7,857</b>	<b>4.29%</b>	<b>4,968</b>	<b>3.08%</b>	<b>2,889</b>
D&A expenses	(9,747)	-5.32%	(10,016)	-6.21%	269
Provisions from unexpected events	(1,711)	-0.93%	(1,065)	-0.66%	(646)
<b>Net operating profit</b>	<b>(3,601)</b>	<b>-1.97%</b>	<b>(6,113)</b>	<b>-3.79%</b>	<b>2,512</b>
Financial income and expense	2,922	1.59%	2,837	1.76%	85
<b>Pre-tax profit</b>	<b>(679)</b>	<b>-0.37%</b>	<b>(3,276)</b>	<b>-2.03%</b>	<b>2,597</b>
Income taxes estimated	(424)	-0.23%	756	0.47%	(1,180)
<b>Net profit (loss) for the period</b>	<b>(1,103)</b>	<b>-0.60%</b>	<b>(2,520)</b>	<b>-1.56%</b>	<b>1,417</b>

## **Revenues**

**Revenues from sales** have overall increased by **9.7%** in comparison to 2014, with higher revenues of Euro 15.3 million, of which Euro 13.2 million came from growth in the sales networks and Euro 2.1 million from the positive change in intercompany sales.

### ***Sales through the Sales Networks - Major markets of reference***

Sales through the Sales Networks attained 9% overall growth compared to 2014, driven by good performance on all markets.

Our Company's performance on the **Italian market** is positive, posting 3.5% growth. This does not express an actual recovery of the domestic market, but rather our acquisition of market shares.

The Italian market impact represents 40% of total sales (impact of 41% as at 31 December 2014).

On the **European markets**, growth was recorded at 8%. It was an excellent result above all driven by the outstanding performance on the German market, where initiatives targeting to specific distribution channels triggered significant growth, and by the good performance of the key markets of Eastern Europe (except for Russia).

The European market share represents 40% of total sales (39% as at 31 December 2015).

The **Asian market** recorded 6% growth. The increase in sales is due to the excellent performance of the Far East and the good results in the Middle East, which more than offset the end of important orders made in continental Asia, which significantly affected sales in 2014.

The Asian market share represents 12% of total sales (in line with the 31 December 2014 figure).

The company enjoyed very sharp growth of over 50% the **other markets (America, Oceania and Africa)**. This result, appreciable also in absolute value, is proof of the efforts put forth to take our products to new markets as well.

With regard to the USA market, it should be noted that Panariagroup has very good coverage in the area thanks to its subsidiary Florida Tile, so it has very limited direct coverage.

The “other markets” share represents 8% of total sales (6% as at 31 December 2014).

### ***Performance of the Sales divisions***

Reversal in the trend witness in previous years continues in the Brand Divisions (Panaria, Lea, Cotto d'Este). The activities carried out to broaden the product line with new types and sizes, together with the strengthening and reorganisation of our sales structure, started to generate good results.

The Panariagroup Trade multi-Brand organisation operating on the Asian, Oceania and Eastern Europe markets has proven to be an effective model by achieving positive results in all of the areas that they cover.

The Private Label (Third-Party) Division was highly successful with its customers owing to the quality and technological and aesthetic content of our products, and it posted a considerable increase in volumes sold.

### **Operating results**

**Gross operating profit** came to Euro 7.9 million, representing 4.3% of the value of production (Euro 5.0 million, 3.1%, in 2014), with an increase of Euro 2.9 million.

The increased revenues and greater use of the production capacity of the three facilities were the decisive factors leading to this significant increase in profit.

Also the significant reduction of 8% in energy rates made a positive contribution, as it is a particularly sizeable cost component for our type of product.

**The net operating profit** amounted to a negative Euro 3.6 million (versus negative Euro 6.1 million in 2014), with a Euro 2.5 million improvement.

The depreciation and amortisation have been substantially in line compared with 2014.

The allocations, amounting to Euro 1.7 million, reflect the prudent assessment of the related financial statements items.

Financial expenses and income amounted to a positive Euro 2.9 million, mainly due to: The positive components particularly worthy of note are:

- the positive effects of the dollar appreciation over the Euro, which generated exchange gains for Euro 1.9 million (Euro 2.5 million in 2014)
- dividend distribution from the controlled company Gres Panaria Portugal for Euro 2.0 million (in line with 2014).

These amounts are partially offset by the interest expenses on financial debts, which are down compared to the previous year mainly due to the reduced interest rates.

**The pre-tax result** is a loss of Euro 0.7 million (negative by Euro 3.3 million in 2014).

**Net loss for the year** totals Euro 1.1 million, (net loss of Euro 2.5 million in 2014).

As previously reported, the Net Results are penalised by about Euro 1 million due to a non-recurring tax component. The reduction of the IRES rate, from 27.5% to 24%, ratified by the Legge di Stabilità (Stability Law) that will go into effect in 2017, in fact led to the need to adjust the deferred tax assets.

Therefore, without this effect the results for the year would have been basically break-even.

## **Review of the balance sheet**

### **Financial position**

(in thousands of Euro)

	31-Dec-15	31-Dec-14
Inventories	69,070	67,745
Accounts Receivable	61,286	53,102
Other current assets	7,779	7,983
<b>CURRENT ASSETS</b>	<b>138,135</b>	<b>128,830</b>
Account Payables	(46,468)	(36,835)
Other current liabilities	(19,649)	(20,062)
<b>CURRENT LIABILITIES</b>	<b>(66,117)</b>	<b>(56,897)</b>
<b>NET WORKING CAPITAL</b>	<b>72,018</b>	<b>71,933</b>
Goodwill	0	0
Intangible assets	1,995	746
Tangible assets	43,956	38,022
Equity Investments and other financial assets	90,047	90,219
<b>FIXED ASSETS</b>	<b>135,998</b>	<b>128,987</b>
Receivables due after following year	9,611	13,449
Provision for termination benefits	(5,756)	(6,501)
Provision for risk and charge and deferred tax	4,421	5,825
Other payables due after the year	(3,654)	(1,925)
<b>ASSET AND LIABILITIES DUE AFTER THE YEAR</b>	<b>4,622</b>	<b>10,848</b>
<b>NET CAPITAL EMPLOYED</b>	<b>212,638</b>	<b>211,768</b>

Short term financial assets	(5,475)	(1,020)
Short term financial debt	30,745	36,395
<b>NET SHORT TERM FINACIAL DEBT</b>	<b>25,270</b>	<b>35,375</b>
Mid-Long term financial debt	44,555	32,726
<b>NET FINANCIAL POSITION</b>	<b>69,825</b>	<b>68,101</b>
Group Shareholders' Equity	142,813	143,667
<b>SHAREHOLDERS' EQUITY</b>	<b>142,813</b>	<b>143,667</b>
<b>TOTAL SOURCES OF FOUNDS</b>	<b>212,638</b>	<b>211,768</b>

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

### **Net working capital**

In 2015, the policy of monitoring and reducing the Net Working Capital, already successfully started in the previous years, continued.

In particular, the inventory value increased by 2% against a 9% increase in revenues, with improvement of the turnover rate.

During the last three-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.

### **Non-current assets**

Non-current assets increased by Euro 7.0 million in 2015.

The change was due to making sizeable investments (Euro 16.7 million) higher than depreciation (Euro 9.7 million).

As we announced last year, an important two-year investments programme was started in 2015, one aimed at laying a solid foundation for the expected commercial development. To this regard, the investments during the year included Euro 7.9 million for construction in progress (the most considerable of which is the production expansion of the Gres Laminate and the realisation of the new SAP IT system).

## Net financial position

### Financial cash flow

(thousands euro)

	31-Dec-15	31-Dec-14
<b>Net financial position (debt) - beginning</b>	<b>(68,101)</b>	<b>(81,994)</b>
Net Result for the period	(1,103)	(2,520)
D & A	9,747	10,016
Non-monetary changes	927	(2,871)
<b>Internal operating Cash flow</b>	<b>9,571</b>	<b>4,625</b>
Change in net working capital and other mid-long term financial asset/debt	1,566	11,405
Net Investments	(16,930)	(8,364)
Changes in Equity	249	(497)
Change in loans to Subsidiaries	3,820	6,724
<b>Net financial position (debt) - final</b>	<b>(69,825)</b>	<b>(68,101)</b>

Net Financial Position is basically in line with the previous year.

The result is to be considered positive, bearing in mind the significant level of investments made, and it was made possible by the improvement in the operating self-funding.

We also report that Euro 30 million in long-term loans were taken out during the year, thus allowing an adequate balance between composition of the sources and the structure of the loans to be kept.

Improvement in the Net Financial Position and Gross Operating Profit ratio and the financial balance is also confirmed as being one of the primary goals for operations next year.

### Equity

Equity decreased from Euro 143.7 million of 2014 to Euro 142.8 million mainly due to the net loss of the year.

## **Segment information**

The application of IFRS 8 – Operating segments became compulsory on 1 January 2009. The 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**

<b><u>ASSETS</u></b>	<b>Italy</b>	<b>Europe</b>	<b>USA</b>	<b>Other</b>	<b>31-Dec-15</b>
<b>CURRENT ASSETS</b>	<b>110,943</b>	<b>12,959</b>	<b>9,904</b>	<b>9,804</b>	<b>143,610</b>
Inventories	69,070				69,070
Trade Receivables	28,619	12,959	9,904	9,804	61,286
Due from tax authorities	3,875				3,875
Other current assets	3,904				3,904
Cash and cash equivalents	5,475				5,475
<b>NON-CURRENT ASSETS</b>	<b>56,984</b>	<b>42,598</b>	<b>55,919</b>	<b>180</b>	<b>155,681</b>
Goodwill	0				0
Intangible assets	1,995				1,995
Property, plant and equipment	43,217		739		43,956
Financial assets	539	42,598	46,730	180	90,047
Deferred tax assets	10,072				10,072
Other non-current assets	1,161		8,450		9,611
<b>TOTAL ASSETS</b>	<b>167,927</b>	<b>55,557</b>	<b>65,823</b>	<b>9,984</b>	<b>299,291</b>
<b>Net investments in assets 2015</b>	<b>16,930</b>				<b>16,930</b>



## **Research and development activities**

Research and development activities, a distinguishing feature of our Company in this sector, continued as before during 2015.

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 2015, and in particular those presented at the now regular event of CERSAIE 2015 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 2015 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.

## **Transactions with subsidiaries**

As at 31 December 2015 the companies controlled by Panariagroup are:

- **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.
- **Panariagroup USA Inc.**, based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. Set up as a financial holding company for the United States area, it owns 100% interests in Florida Tile Inc. and Lea North America LLC.
- **Lea North America LLC.**, with head office in Delaware, USA, and share capital of USD 20,000 fully paid-in
- **Florida Tile Inc.**, with head office in Delaware, USA and share capital of USD 34,000,000 fully paid-in
- **Montanari Ceramiche S.r.l.**, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup Immobiliare S.r.l.**, based in Finale Emilia (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.

The investee companies realized the following results in 2015:

- Gres Panaria Portugal S.A. realized a net turnover of Euro 58.3 million and reported a profit of Euro 2.7 million after depreciation and amortisation, provisions and taxes for Euro 3.8 million; total assets of the Portuguese subsidiary amount to Euro 66.7 million and equity, including the 2015 profit, is Euro 36.9 million.
- The subsidiary Panariagroup USA realized a net turnover of USD 7.9 million, with a profit of USD 0.2 million after depreciation and amortisation, provisions and taxes for USD 0.1 million; total assets of the company amount to USD 86.3 million and equity, including the 2015 profit, is USD 77.8 million.
- The subsidiary Lea North America realized a net turnover of USD 11.6 million and made a profit of USD 1.1 million after depreciation and amortisation, provisions and taxes for USD 0.5 million; total assets of the US subsidiary amount to USD 11.9 million and equity, including the 2015 profit, is USD 5.6 million.

- The subsidiary Florida Tile Inc. realized a net turnover of USD 132.4 million and realized a profit of USD 6.7 million after depreciation and amortisation, provisions and taxes for USD 8.7 million; total assets of the US subsidiary amount to USD 96.2 million and equity, including the 2015 profit, is USD 13.7 million.
- The subsidiary Montanari Ceramiche S.r.l. realized a net turnover of Euro 1.4 million and realized a net loss of Euro 65 thousand; the sum of depreciation and amortisation, allocations and taxes is equal to Euro 29 thousand. Total assets amount to Euro 1,286 thousand and equity, including the 2015 loss, is Euro 123 thousand.
- The subsidiary Panariagroup Immobiliare S.r.l. made no sales during the year and realized a loss of Euro 4 thousand. Total assets amount to Euro 128 thousand and equity, including the 2014 loss, is Euro 26 thousand.

Trade transactions between our Company and the subsidiaries, regulated at market conditions, can be summed up as follows (values in thousands of Euro).

<i>Nature</i>	<i>Description</i>	<i>GPP</i>	<i>PGU</i>	<i>FTI</i>	<i>LNA</i>	<i>IPG</i>	<i>MON</i>
<i>Income Statement - Revenues</i>	<i>Sale of Finished Products</i>	3,643	1,824	2,135	5,268		176
<i>Income Statement - Revenues</i>	<i>Sale of Raw Materials</i>						
<i>Income Statement - Revenues</i>	<i>Services</i>	1,072	53	1,075	205		11
<i>Income Statement - Costs</i>	<i>Purchase of finished products</i>	4,719					6
<i>Income Statement - Costs</i>	<i>Services</i>						1
<i>Income Statement - Costs</i>	<i>Chargeback of costs</i>	267					
<i>Income Statement - Income</i>	<i>Interest on loans</i>			273			1
<i>Income Statement - Income</i>	<i>Dividends</i>	1,980					
<i>Balance Sheet - Liabilities</i>	<i>Account payables</i>	1,332					2
<i>Balance Sheet - Receivables</i>	<i>Trade receivables</i>	2,476	1,168	3,966	4,063		102
<i>Balance Sheet - Receivables</i>	<i>Receivables for Dividends</i>						
<i>Balance Sheet - Receivables</i>	<i>Loans</i>			8,450		100	550

#### **Legend**

GPP = Gres Panaria Portugal  
PGU = Panariagroup USA  
FTI = Florida Tile  
LNA = Lea North America  
IPG = Panariagroup Immobiliare  
MON = Montanari Ceramiche

## **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 31 December 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 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 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, it is reported that during 2015 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

## **Privacy policy**

Pursuant to Attachment B) of Italian Legislative Decree 196/2003 (Privacy Act), the directors report that the Company has come into line with the minimum security measures that this law requires.

More specifically, pursuant to point 26 of Attachment B), the Company has duly drawn up the Security Policy Document for the year 2015. It is on file at the registered office and can be consulted by authorised parties and/or the competent control authorities.

## **Significant subsequent events**

No significant events have taken place in the period subsequent to the end of December 2015.

## **Outlook for operations**

The results achieved during the year were basically in line with the plans drawn up by Management and met the targets of growth in revenue, utilisation of the production capacity, consolidation of assets and optimization in the organisation.

This path taken allowed us to reach an improved, although unsatisfactory, level of profit, confirmed and balanced capital strength and a more efficient organisational structure suited to present needs in 2015.

We consider this improved situation the starting point for another decisive relaunching toward optimum growth levels and toward more adequate profit objectives.

On the other hand, the events that took place in the economic and geopolitical areas at the end of 2015 and in early 2016 somewhat undermined the climate of confidence that was spreading above all in the Western countries. The drastic plunge in the price of the energy sources together with a reduction in the growth expectations of the Chinese economy, the uncertainties tied to the European banking system and the terrorist threat are all factors that might make a negative impact on the economic growth expectations and therefore also on our development plans.

The trend in the price of energy sources will certainly bring about some tangible and immediate effect for our Company as well. If on the one hand attainment of additional sizeable earnings, with a forecast 10% fall, is certain, on the other it is probable that in some important Middle Eastern markets (and in Russia as well), whose economy pivots around the energy market, we will see a slowdown in consumption due to this economic situation.

Nevertheless, we are confident thanks to the considerable instrumental and organisational investments made in recent years in order to intercept the best opportunities for development even in an uncertain situation.

We therefore confirm our expectations of improvement in the major economic and financial indicators (Revenues, Operating Margin, Net Result) in 2016 as well

## **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](http://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**

The macro-economic context is an element of potential risk for the Group, with particular reference to the specific business sector, significantly influenced by the economic situation. The construction sector in general is strongly related to the investment propensity of families and industries and is therefore influenced by the uncertainties arising from the current economic situation.

### **CREDIT AND LIQUIDITY RISK**

The Company'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 Company'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 Company's principal

managers leaving the company is remote. Should this happen, however, it could have a negative impact on the activities and results of Panariagroup.

### **MARKET RISK**

#### **Competition risk:**

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian firms, are: (i) producers in emerging markets, who are particularly competitive price-wise and target the lower end of the market; (ii) European producers, some of whom are able to compete at the higher end of the market, with average prices that are lower than those of Italian companies, due to lower production costs. Our Company 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 Company'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. Therefore, their increase, which is not currently expected, could have a negative impact on the financial results of the Company 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 Company 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 2015 was equal to 789 individuals, a decrease of 15 employees compared with the average number in 2014.

### **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 DECEMBER 31, 2015							
Name and Last Name	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2015	Number of shares sold in 2015	Number of shares held at 12/31/2015	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	597,700	36,881	315,660	318,921	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	250,641			250,641	Direct	Property
Pini Giuliano	Panariagroup	77,302	3,000		80,302	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>Total</b>		<b>1,091,439</b>	<b>39,881</b>	<b>325,660</b>	<b>805,660</b>		



## **ATTACHMENTS**

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 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

## **Allocation of the 2015 net result**

We propose to Shareholders' Meeting to carry forward current year loss.

We ask that you vote in favour of approval of the financial statements together with this Directors' Report.

Sassuolo 18 March 2016

The Chairman  
***Emilio Mussini***

**Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position**  
**figures at December 31, 2015**

**STATEMENT OF FINANCIAL POSITION - IFRS**

<u>ATTIVO</u>	31-Dec-15	RIF
<b>CURRENT ASSETS</b>	<b>143,610</b>	
Inventories	69,070	(A)
Trade Receivables	61,286	(B)
Due from tax authorities	3,875	(C)
Other current assets	3,904	(D)
Cash and cash equivalents	5,475	(E)
<b>NON-CURRENT ASSETS</b>	<b>155,681</b>	
Goodwill	-	(F)
Intangible assets	1,995	(G)
Property, plant and equipment	43,956	(H)
Financial assets	90,047	(I)
Deferred tax assets	10,072	(J)
Other non-current assets	9,611	(L)
<b>TOTAL ASSETS</b>	<b>299,291</b>	
<b>LIABILITIES AND EQUITY</b>	<b>12/31/2015</b>	
<b>CURRENT LIABILITIES</b>	<b>96,862</b>	
Due to banks and other sources of finance	30,745	(M)
Trade payables	46,468	(N)
Due to tax authorities	2,372	(O)
Other current liabilities	17,277	(P)
<b>NON-CURRENT LIABILITIES</b>	<b>59,616</b>	
Employee severance indemnities	5,756	(Q)
Deferred tax liabilities	1,909	(R)
Provisions for risks and charges	3,742	(S)
Due to banks and other sources of finance	44,555	(T)
Other non-current liabilities	3,654	(U)
<b>TOTAL LIABILITIES</b>	<b>156,478</b>	
<b>EQUITY</b>	<b>142,813</b>	
Share capital	22,678	(V)
Reserves	121,238	(W)
Net profit (loss) for the year	- 1,103	(X)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>299,291</b>	

**RECLASSIFIED FINANCIAL POSITION**

	31-Dec-15	RIF
Inventories	69,070	(A)
Trade Receivable	61,286	(B)
Other current assets	7,779	(C)+(D)
<b>CURRENT ASSETS</b>	<b>138,135</b>	
Trade Payables	(46,468)	(N)
Other current liabilities	(19,649)	(O) + (P)
<b>CURRENT LIABILITIES</b>	<b>(66,117)</b>	
<b>NET WORKING CAPITAL</b>	<b>72,018</b>	
Goodwill	0	(F)
Intangible assets	1,995	(G)
Property, plant and equipment	43,956	(H)
Equity Investments and other financial assets	90,047	(I)
<b>FIXED ASSETS</b>	<b>135,998</b>	
Receivables due beyond 12 months	9,611	(L)
Employee severance indemnities	(5,756)	(Q)
Provision for risk and charge and deferred taxes	4,421	(R)+(S)+(J)
Other liabilities due beyond 12 months	(3,654)	(U)
<b>ASSET AND LIABILITIES DUE BEYOND 12 MONTHS</b>	<b>4,622</b>	
<b>NET CAPITAL EMPLOYED</b>	<b>212,638</b>	
Short term financial assets	(5,475)	(E)
Short term financial indebtedness	30,745	(M)
<b>NET SHORT TERM FINACIAL INDEBTEDNESS</b>	<b>25,270</b>	
Mid-Long term financial debt	44,555	(T)
<b>NET FINANCIAL POSITION</b>	<b>69,825</b>	
Equity	142,813	(V)+(W)+(X)
<b>EQUITY</b>	<b>142,813</b>	
<b>TOTAL SOURCES OF FOUNDS</b>	<b>212,638</b>	

**Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position**  
**figures at December 31, 2014**

**STATEMENT OF FINANCIAL POSITION - IFRS**

ASSETS	31-Dec-14	RIF
<b>CURRENT ASSETS</b>	<b>129,850</b>	
Inventories	67,745	(A)
Trade Receivables	53,102	(B)
Due from tax authorities	3,258	(C)
Other current assets	4,725	(D)
Cash and cash equivalents	1,020	(E)
<b>NON-CURRENT ASSETS</b>	<b>154,083</b>	
Goodwill	-	(F)
Intangible assets	746	(G)
Property, plant and equipment	38,022	(H)
Financial assets	90,219	(I)
Deferred tax assets	11,647	(J)
Other non-current assets	13,449	(L)
<b>TOTAL ASSETS</b>	<b>283,933</b>	

**LIABILITIES AND EQUITY** 12/31/2014

<b>CURRENT LIABILITIES</b>	<b>93,292</b>	
Due to banks and other sources of finance	36,395	(M)
Trade payables	36,835	(N)
Due to tax authorities	2,427	(O)
Other current liabilities	17,635	(P)
<b>NON-CURRENT LIABILITIES</b>	<b>46,974</b>	
Employee severance indemnities	6,501	(Q)
Deferred tax liabilities	2,118	(R)
Provisions for risks and charges	3,704	(S)
Due to banks and other sources of finance	32,726	(T)
Other non-current liabilities	1,925	(U)
<b>TOTAL LIABILITIES</b>	<b>140,266</b>	
<b>EQUITY</b>	<b>143,667</b>	
Share capital	22,678	(V)
Reserves	123,509	(W)
Net profit (loss) for the year	- 2,520	(X)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>283,933</b>	

**RECLASSIFIED FINANCIAL POSITION**

	31-Dec-14	RIF
Inventories	67,745	(A)
Trade Receivable	53,102	(B)
Other current assets	7,983	(C)+(D)
<b>CURRENT ASSETS</b>	<b>128,830</b>	
Trade Payables	(36,835)	(N)
Other current liabilities	(20,062)	(O) + (P)
<b>CURRENT LIABILITIES</b>	<b>(56,897)</b>	
<b>NET WORKING CAPITAL</b>	<b>71,933</b>	
Goodwill	0	(F)
Intangible assets	746	(G)
Property, plant and equipment	38,022	(H)
Equity Investments and other financial assets	90,219	(I)
<b>FIXED ASSETS</b>	<b>128,987</b>	
Receivables due beyond 12 months	13,449	(L)
Employee severance indemnities	(6,501)	(Q)
Provision for risk and charge and deferred taxes	5,825	(R)+(S)+(J)
Other liabilities due beyond 12 months	(1,925)	(U)
<b>ASSET AND LIABILITIES DUE BEYOND 12 MONTHS</b>	<b>10,848</b>	
<b>NET CAPITAL EMPLOYED</b>	<b>211,768</b>	
Short term financial assets	(1,020)	(E)
Short term financial indebtedness	36,395	(M)
<b>NET SHORT TERM FINACIAL INDEBTEDNESS</b>	<b>35,375</b>	
Mid-Long term financial debt	32,726	(T)
<b>NET FINANCIAL POSITION</b>	<b>68,101</b>	
Equity	143,667	(V)+(W)+(X)
<b>EQUITY</b>	<b>143,667</b>	
<b>TOTAL SOURCES OF FOUNDS</b>	<b>211,768</b>	

# **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.*

	31-Dec-15	
	Securities	-
	Cash and cash equivalents	(5,475)
<b>(1)</b>	<b>Short-term financial assets</b>	<b>(5,475)</b>
<b>(2)</b>	Due to banks	10,650
	Current portion of long-term loans	20,095
	Leases	-
	<b>Short-term financial indebtedness</b>	<b>30,745</b>
	Non-current portion of long-term loans	44,555
	Leases	-
	<b>Long-term financial indebtedness</b>	<b>44,555</b>
<b>(3)</b>	<b>Net financial indebtedness</b>	<b>69,825</b>
<b>(1)+(2)</b>	<b>Net short-term financial indebtedness</b>	<b>5,175 = (X)</b>
	(as reported in IFRS cash flow statement)	
<b>(3)</b>	<b>Total net financial position</b>	<b>69,825 = (Z)</b>
	(as reported in summary of cash flow contained in the Directors' Report)	

**PANARIAGROUP**  
**FINANCIAL STATEMENT**  
**CASH FLOW STATEMENT - IFRS**  
(THOUSAND OF EURO)

	31 Dec 2015	
<i>(in thousands of euro )</i>		
<b>A - OPERATIONS</b>		
Net result of the period	(1,103)	A
Amortisation and impairment	9,747	B
Deferred tax liabilities (assets)	1,366	C
Net change in Employee severance indemnities	(745)	D
Net change in provisions	134	E
Revaluation and write-down of the value of equity investments	172	F
Dividends by controlled company not yet paid	-	G
<b>Cash flow (absorption) from operations prior to changes in working capital</b>	<b>9,571</b>	
(Increase)/(decrease) in trade receivables	(8,476)	
(Increase)/(decrease) in inventories	(1,130)	
(Increase)/(decrease) in trade payables	9,633	
Net change in other assets/liabilities	1,539	
<b>Cash flow (absorption) from operations due to changes in working capital</b>	<b>1,566</b>	H
<b>Total (A) Cash flow from operations</b>	<b>11,137</b>	
<b>B - INVESTMENT ACTIVITY</b>		
Net investment in tangible assets	(15,351)	J
Net investment in intangible assets	(1,579)	K
Net investment in financial assets	-	I
<b>Total (B) Cash Flow /absorption) from investment activities</b>	<b>(16,930)</b>	
<b>C - FINANCING ACTIVITY</b>		
Increase in capital		
Distribution of dividends		
Other changes in equity	249	L
(Purchase) Sale of treasury shares		N
Net change in loans	7,030	
Net change in intercompany loans	3,820	M
<b>Total (C) Cash Flow (absorption) from financing activities</b>	<b>11,099</b>	
<b>Opening net cash (indebtedness)</b>	<b>(10,481)</b>	
Net change in short-term net cash (indebtedness) (A+B+C)	5,306	
<b>Closing net cash (indebtedness)</b>	<b>(5,175)</b>	(X)

**Financial cash flow**  
(thousands euro)

31-Dec-15

<b>Net financial position (debt) - beginning</b>	<b>(68,101)</b>	
Net Result for the period	(1,103)	A
D & A	9,747	B
Non monetary changes	927	C+D+E+F+G
<b>Internal operating Cash flow</b>	<b>9,571</b>	
Changes in net working capital	1,566	H
Changes in Equity Investments	0	I
Net investments	(16,930)	J+K
Changes in intercompany loans	3,820	M
Changes in Equity	249	L+N
<b>Net financial position (debt) - final</b>	<b>(69,825)</b>	(Z)

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

**FINANCIAL STATEMENTS**

# PANARIAGROUP Industrie Ceramiche S.p.A.

## STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

<i>Rif</i>	<u>ASSETS</u>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
	<b>CURRENT ASSETS</b>	<b>143,611,222</b>	<b>129,849,934</b>
<b>1.a</b>	Inventories	69,070,454	67,744,951
<b>1.b</b>	Trade Receivables	61,286,729	53,101,609
<b>1.c</b>	Due from tax authorities	3,874,663	3,258,067
<b>1.d</b>	Other current assets	3,904,336	4,724,912
<b>1.e</b>	Cash and cash equivalents	5,475,040	1,020,394
	<b>NON-CURRENT ASSETS</b>	<b>155,679,916</b>	<b>154,082,710</b>
<b>2.a</b>	Intangible assets	1,994,533	745,542
<b>2.b</b>	Property, plant and equipment	43,955,527	38,022,443
<b>2.c</b>	Financial assets	90,046,536	90,218,976
<b>2.d</b>	Deferred tax assets	10,072,163	11,646,994
<b>2.e</b>	Other non-current assets	9,611,157	13,448,755
	<b>TOTAL ASSETS</b>	<b>299,291,138</b>	<b>283,932,644</b>
	<b>LIABILITIES</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
	<b>CURRENT LIABILITIES</b>	<b>96,861,478</b>	<b>93,292,664</b>
<b>3.a</b>	Due to banks and other sources of finance	30,745,069	36,395,432
<b>3.b</b>	Trade payables	46,467,587	36,834,570
<b>3.c</b>	Due to tax authorities	2,372,194	2,427,224
<b>3.d</b>	Other current liabilities	17,276,629	17,635,438
	<b>NON-CURRENT LIABILITIES</b>	<b>59,616,937</b>	<b>46,974,193</b>
<b>4.a</b>	Employee severance indemnities	5,756,114	6,500,865
<b>4.b</b>	Deferred tax liabilities	1,909,448	2,117,855
<b>4.c</b>	Provisions for risks and charges	3,742,121	3,703,575
<b>4.d</b>	Due to banks and other sources of finance	44,555,354	32,726,497
<b>4.e</b>	Other non-current liabilities	3,653,899	1,925,401
	<b>TOTAL LIABILITIES</b>	<b>156,478,416</b>	<b>140,266,858</b>
<b>5</b>	<b>EQUITY</b>	<b>142,812,722</b>	<b>143,665,787</b>
	Share capital	22,677,646	22,677,646
	Reserves	121,238,158	123,508,522
	Net profit for the year	(1,103,081)	(2,520,381)
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>299,291,138</b>	<b>283,932,644</b>

# PANARIAGROUP Industrie Ceramiche S.p.A.

## INCOME STATEMENT

(THOUSANDS OF EURO)

Rif		31-Dec-15		31-Dec-14	
<b>6.a</b>	REVENUES FROM SALES AND SERVICES	172,837,845	94.3%	157,487,426	97.7%
	Change in inventories of finished products	1,483,565	0.8%	(3,629,405)	-2.3%
<b>6.b</b>	Other revenues	8,889,350	4.9%	7,396,104	4.6%
	<b>VALUE OF PRODUCTION</b>	<b>183,210,759</b>	<b>100.0%</b>	<b>161,254,125</b>	<b>100.0%</b>
<b>7.a</b>	Raw materials	(49,484,359)	-27.0%	(39,043,349)	-24.2%
<b>7.b</b>	Services, leases and rentals	(77,064,091)	-42.1%	(68,793,810)	-42.7%
	<i>of which, related party transactions</i>	<i>(5,449,441)</i>	<i>-3.0%</i>	<i>(5,469,416)</i>	<i>-3.4%</i>
<b>7.c</b>	Personel costs	(47,062,428)	-25.7%	(46,615,678)	-28.9%
<b>7.d</b>	Other operating expenses	(1,743,099)	-1.0%	(1,833,919)	-1.1%
	<b>PRODUCTION COSTS</b>	<b>(175,353,978)</b>	<b>-95.7%</b>	<b>(156,286,755)</b>	<b>-96.9%</b>
	<b>GROSS OPERATING PROFIT</b>	<b>7,856,782</b>	<b>4.3%</b>	<b>4,967,369</b>	<b>3.1%</b>
<b>8.a</b>	Amortisation and depreciation	(9,747,061)	-5.3%	(10,015,922)	-6.2%
<b>8.b</b>	Provisions and writedowns	(1,710,720)	-0.9%	(1,064,653)	-0.7%
	<b>NET OPERATING PROFIT</b>	<b>(3,601,000)</b>	<b>-2.0%</b>	<b>(6,113,206)</b>	<b>-3.8%</b>
<b>9.a</b>	Financial income (expense)	2,921,527	1.6%	2,837,215	1.8%
	<b>PRE-TAX PROFIT</b>	<b>(679,473)</b>	<b>-0.4%</b>	<b>(3,275,991)</b>	<b>-2.0%</b>
<b>10.a</b>	Income taxes	(423,609)	-0.2%	755,610	0.5%
	<i>of which, new deferred tax rate adjustment</i>	<i>(1,013,998)</i>	<i>-0.6%</i>	<i>-</i>	<i>0.0%</i>
	<b>NET PROFIT</b>	<b>(1,103,081)</b>	<b>-0.6%</b>	<b>(2,520,381)</b>	<b>-1.6%</b>
	<b>BASIC AND DILUTED EARNING PER SHARE</b>	<b>(0.024)</b>		<b>(0.056)</b>	

The % shown in the diagram refers to the incidence with respect to the value of production



## STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31-Dec-15	31-Dec-14
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(1,103,081)</b>	<b>(2,520,381)</b>
Other components of comprehensive income that will be reclassified later to after-tax profit	0	0
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	250,017	(496,930)
Joint-Venture losses- Applying the Equity Method of accounting	(8,114)	37,395
(loss) Net Profit from revaluation of defined benefits and plans	258,131	(534,325)
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>(853,065)</b>	<b>(3,017,311)</b>

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

**CASH FLOW STATEMENT - IFRS**

(THOUSANDS OF EURO)

	December, 31 2015	December, 31 2014
<i>(thousands of Euro)</i>		
<b>A - OPERATIONS</b>		
Net Results of the period	(1,103)	(2,520)
Ammortisation, depreciation and impairments	9,747	10,016
Deferred tax liabilities (assets)	1,366	(1,872)
Net change in the provision for severance indemnities	(745)	480
Net change in provisions	134	(1,479)
Investments depreciation	172	-
<i>Cash flow (absorption) from operations prior to changes in working capital</i>	<i>9,571</i>	<i>4,625</i>
(Increase)/Decrease in trade receivables	(8,476)	625
(Increase)/Decrease in inventories	(1,130)	5,521
(Increase)/Decrease in trade payables	9,633	3,928
Net change in other current assets/liabilities	1,539	1,331
<i>Cash flow (absorption) from operations due to changes in working capital</i>	<i>1,566</i>	<i>11,405</i>
<b>TOTAL (A) CASH FLOW FROM OPERATIONS</b>	<b>11,137</b>	<b>16,030</b>
<b>B - INVESTMENT ACTIVITY</b>		
Net investment in tangible assets	(15,351)	(7,909)
Net investment in intangible assets	(1,579)	(455)
Net investment in financial assets	-	-
<b>TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY</b>	<b>(16,930)</b>	<b>(8,364)</b>
<b>C - FINANCING ACTIVITY</b>		
Increase in capital		
Distribution of dividends		
Other changes in equity	249	(497)
(Purchase) Sale of treasury shares		
Net change in loans	7,030	(15,743)
Net change in other financing activities/liabilities		
Net change in intercompany loans	3,820	6,724
<b>TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES</b>	<b>11,099</b>	<b>(9,516)</b>
<b>Opening net cash (indebtedness)</b>	<b>(10,481)</b>	<b>(8,631)</b>
<b>Net change in net short-term cash (indebtedness) (A+B+C)</b>	<b>5,306</b>	<b>(1,850)</b>
<b>Closing net cash (indebtedness)</b>	<b>(5,175)</b>	<b>(10,481)</b>
Supplementary information		
Interests paid	748	1,194
Income taxes paid	480	659

The net cash (indebtedness) position includes cash and cash equivalents, including bank deposits and overdrafts, but excluding the current portion of long-term loans

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

**Statement of changes in equity from 1 January 2014 to 31 December 2015**

	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Revaluation reserve</i>	<i>Legal reserve</i>	<i>Other reserves</i>	<i>Net profit (loss of the period)</i>	<i>Total equity</i>
(THOUSANDS OF EURO)							
<b><i>Balance as of 1 January 2014</i></b>	<b>22,678</b>	<b>60,784</b>	<b>4,493</b>	<b>3,771</b>	<b>51,207</b>	<b>3,750</b>	<b>146,683</b>
<i>Net result for the period</i>						(2,520)	(2,520)
<i>Other comprehensive profit (loss)</i>					(497)		(497)
<b><i>Total gains (losses) booked directly to equity</i></b>					<b>(497)</b>	<b>(2,520)</b>	<b>(3,017)</b>
<i>Allocation of net profit for year 2013</i>				187	3,563	(3,750)	
<b><i>Balance as of 31 December 2014</i></b>	<b>22,678</b>	<b>60,784</b>	<b>4,493</b>	<b>3,958</b>	<b>54,273</b>	<b>(2,520)</b>	<b>143,666</b>
<b><i>Balance as of 1 January 2015</i></b>	<b>22,678</b>	<b>60,784</b>	<b>4,493</b>	<b>3,958</b>	<b>54,273</b>	<b>(2,520)</b>	<b>143,666</b>
<i>Net result for the period</i>						(1,103)	(1,103)
<i>Other comprehensive profit (loss)</i>					250		250
<b><i>Total gains (losses) booked directly to equity</i></b>					<b>250</b>	<b>(1,103)</b>	<b>(853)</b>
<i>Allocation of net profit for year 2014</i>					(2,520)	2,520	
<b><i>Balance as of 31 December 2015</i></b>	<b>22,678</b>	<b>60,784</b>	<b>4,493</b>	<b>3,958</b>	<b>52,003</b>	<b>(1,103)</b>	<b>142,813</b>

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

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## **EXPLANATORY NOTES**

## INTRODUCTION

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

The Company produces and sells ceramic tiles for floors and wall coverings under five distinctive brand names (Panaria, Lea, Cotto d'Este, Fiordo and Blustyle) that are sold in more than 60 countries.

The Company holds controlling interests recorded in the financial statements at cost and, accordingly, has prepared Group consolidated financial statements. These financial statements provide adequate supplementary disclosures on the financial position and results of the Company and the Group.

The financial statements for the year ended 31 December 2015 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 Leg. 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 financial statements include:

- the balance sheet as at 31 December 2015 compared with the balance sheet as at 31 December 2014. 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 income statement for 2015, compared with the one for 2014.

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 Company's management is of the opinion that they provide important information for an understanding of the results for the period:

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

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 comprehensive income for 2015 with comparative figures for the year 2014, presented in accordance with the requirements of IAS 1 revised.
- the cash flow statement for 2015 and 2014. 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;
- the statement of changes in equity from 1 January 2014 to 31 December 2015;
- the explanatory notes (with related attachments).

The currency used to draw up the financial statements of Panariagroup Industrie Ceramiche S.p.A. for the period 1 January – 31 December 2015 is the euro.

## 1) ACCOUNTING PRINCIPLES

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### *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 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 2015 do not differ from those used to draft the consolidated financial statements for the year ended 31 December 2014, with the exception of the accounting standards, amendments and interpretations applicable from 1 January 2015.

In particular, the following amendments were made:

In particular, the following amendments were made:

- IFRIC 21 Levies. The interpretation provides clarifications on when a liability associated with levies (other than income taxes) imposed by a government body is recognised. The principle deals with both the liabilities for levies falling within the scope of application of IAS 37 - Provisions, contingent liabilities and contingent assets, and those for the levies whose timing and amount are certain.
- IFRS 3 - Business Combinations. The amendment clarifies that paragraph 2(a) of IFRS 3 leaves the formation of all types of joint arrangement out of the scope of application of IFRS 3, as defined by IFRS 11.
- IFRS 13 - Fair value measurement. The amendment clarifies that the portfolio exception included in paragraph 52 of IFRS 13 applies to all contracts included in the scope of application of IAS 39, regardless of the fact they meet the definition of financial assets and liabilities provided by IAS 32.
- IFRS 40 - Investment property. The amendment clarifies that when determining whether a transaction represents the purchase of an asset or company combination, IFRS 3 must be used and not the description of additional services of IAS 40.

These amendments did not impact the Group's financial statements.

The standards, amendments and interpretations are indicated below which, at the date of drafting of the consolidated financial statements, had already been approved by the European Union but not yet mandatory to apply and not yet adopted in advance by the Group as at 31 December 2015;

- Amendments to IAS 19 on employee benefits: the amendment proposes presenting the contributions (regarding only the service rendered by the employee during the year) made by the employees or third parties to the defined benefit plans that reduce the service cost of the year in which said contribution is paid. The need for this proposal arose with the introduction of the new IAS 19 (2011) where it is deemed that these contributions are to be interpreted as part of a post-employment benefit instead

of a short-term benefit, so this contribution has to be spread out over the years of the employee's service.

- Amendments to IFRS 11 – Joint arrangements: Amendments regarding the accounting of the acquisition of interests in a joint operation whose activities constitutes a business in the meaning established by IFRS 3. The amendments require that the principles set out in IFRS 3 regarding the recognition of the effects of a business combination as at 1 January 2016 or afterwards be applied for these cases.
- Amendments to IAS 16 and to IAS 38: The amendments to IAS 16 establish that the depreciation criteria determined based on the revenues are inappropriate since, according to the amendment, the revenues generated by an asset that includes use of the asset depreciated usually reflect factors other than just consumption of the economic benefits of the same asset. The amendments to IAS 38 introduce a relative presumption according to which a depreciation criterion based on revenues is usually considered inappropriate for the same reasons established by the amendments introduced to IAS 16. In the case of the intangible assets, this presumption can, on the other hand, be surpassed, but only in limited and specific circumstances.
- Amendments to IAS 27 - Equity method in the separate financial statements: with the amendment to IAS 27 Separate financial statements, the IASB introduced the right to value the equity investments in subsidiaries, associates or joint ventures in the separate financial statement using the equity method. This right, which was first barred, is added to the other two options that have been kept: cost or fair value method, in compliance with IAS 39 or IFRS 9. The right to use the equity method for all or some categories of equity investments has to be retroactively applied in the separate financial statements.
- Amendments to IAS 1: disclosure initiative. With the Disclosure Initiative the IASB clarified the following aspects with reference to presentation of financial statements:
  - emphasis on the meaningfulness of the supplementary information of the financial statements
  - order of the explanatory notes to the financial statements
  - aggregation/breakdown of the items of the financial statements
  - sub-totals in the financial statements
  - other components in the statement of comprehensive income regarding associates and joint ventures valued with the equity method.
- Improvements introduced to the international accounting standards Cycle 2010-2012: the objective of the annual improvements is to deal with necessary subjects regarding inconsistencies found in the IFRSs or with terminological clarifications that are not urgent, but have been discussed by the ASB during the project cycle started in 2011. In some cases, the amendments are clarifications or corrections regarding the standards in question (IFRS 8, IAS 16, IAS 24 and IAS 38). In other cases, the amendments involve changes to the instructions in force or provide further information regarding their application (IFRS 2 and 3).
- Annual cycle of improvements to the 2012-2014 IFRSs. These improvements regard: IFRS 5, IFRS 7, IAS 19 and IAS 34.

The amendments listed above will be in effect starting from the financial years starting from 1 January 2016 with no significant impact on the financial statements.

Lastly, the accounting standards, amendments and IFRS interpretations not yet approved by the European Union are provided:



- IFRS 15 - Revenue from contracts with customers. The standard establishes a new model of recognising revenues that will apply to all contracts stipulated with the customers except for those that fall within the scope of application of other IAS/IFRS standards such as leases, insurance contracts and financial instruments. The basic steps for accounting the revenues according to the new model are:
  - identification of the contract with the customer;
  - identification of the performance obligations of the contract;
  - determination of the price;
  - allocating the price to the performance obligations of the contract;
  - the revenue recognition criteria when the entity meets each performance obligation.This standard is effective for years starting on or after 1 January 2018.
- IFRS 16 – Leasing. With new innovations compared to the past, the standard establishes that the leases are represented on the balance sheets of the companies, thus increasing visibility of their assets and liabilities. IFRS 16 does away with the distinction between operating leasing (for the lessee - the customer of the lease) and treats all the contracts in question like financial leases. The short-term contracts (within 12 months) and those covering goods of low value (e.g., personal computers) are exempt from this treatment. The new standard will go into effect starting 1 January 2019. Early application is allowed provided the recent IFRS 15 standard Revenue from Contracts with Customers is also applied.
- IFRS 9 – Financial instruments. The document contains the results of the phases relating to Classification and measurement, Impairment and Hedge accounting of the IASB project aimed at replacing IAS 39. The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, for the financial assets the new standard uses a unique approach based on the methods of managing financial instruments and on the features of the contractual cash flows of the financial assets in order to determine their measurement criterion, replacing the different rules provided for by IAS 39. For the financial liabilities, on the other hand, the main amendment regards the accounting treatment of the changes in fair value of a financial liability designated as financial liability measured at fair value through the income statement if these changes are due to the change in the credit rating of the issuer of the same liability. According to the new standard, these changes must be recognised in the "Other comprehensive income" statement, and no longer in the income statement. With reference to the impairment model, the new standard requires that the estimate of the losses on receivables be made based on the expected losses model (and not on the incurred losses model), using supportable information available without expense or unreasonable efforts that include current and perspective historical data. The standard establishes that this impairment model be applied to all financial instruments, or to the financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to the receivables coming from rent contracts and to the trade receivables. Lastly, the standard introduces a new hedge accounting model in order to adjust the requirements set out in the current IAS 39, which sometimes have been considered too strict and not suitable for reflecting the risk management policies of the companies. The main innovations of the document concern:

- increase in the types of eligible transactions for hedge accounting, also including the risks of non-financial assets/liabilities eligible for being managed in hedge accounting;

- change in the method of accounting forward contracts and the options when included in a hedge accounting relationship in order to reduce the volatility of the income statement;

This standard is effective for years starting on or after 1 January 2018.

- Amendment to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses. The IASB clarifies how the deferred tax assets regarding debt instruments measured at fair value have to be recognised.

The main accounting policies applied are described below.

### **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.

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 the 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.

Software is amortised on a straight-line basis over its useful life, in the absence of specific indications, considered to be 5 years.

### **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 Panaria 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 recorded in the financial statements, the development costs are charged to the income statement in 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 of their useful lives; in the absence of specific indications, for trademarks 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 and/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):

<b>Category</b>	<b>Rate</b>
Buildings	4%
Plant and machinery	10%-15%
Industrial equipment	25 %
Electronic office machines	20% - 25%
Furniture and showroom furnishings	10% - 20%
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.

## **Equity investments in subsidiaries**

Equity investments in subsidiaries are stated at historical cost.

### **Equity investments in 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 2015, the Group held a joint venture company (JVC). This equity investment, was valued in the consolidated financial statements for the year ended 31 December 2015 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.

### **Impairment losses**

At each balance sheet date, the Company reviews the book value of its tangible, intangible and financial assets for any signs that these assets may have suffered a loss in value. In order to verify whether the assets have suffered a loss in value, an estimate is made of the recoverable amount of these assets to determine the amount of any impairment. When it is not possible to estimate the recoverable amount of an asset individually, the Company makes an estimate of the recoverable amount of the cash generating unit (CGU) to which the asset belongs.

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.

When, subsequently, the loss in value ceases to exist or is reduced, the carrying value of the asset is increased up to the new estimate of the recoverable amount, but no higher than the value that would have been determined if no impairment loss had been recognised. The write-back of a loss in value is recognised immediately in profit or loss.

### **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 Company 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 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 Company 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 Company's activities are primarily exposed to financial risks arising from changes in exchange rates and interest rates. The Company 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 or a change in interest rates, 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 the income statement in the period they arise.

## ***Provisions***

Provisions are recognised in the financial statements when the Company has a clear obligation as the result of a past event and it is probable that it will be required to fulfil the obligation. Provisions are made on the basis of management's best estimate of the costs required to fulfil the obligation as of the balance sheet date, and are discounted if the effect is significant.

## ***Post-employment benefits***

Payments into defined-contribution pension plans are booked to the income statement in the period in which they are due; payments to Foncer, a supplementary pension scheme, fall into this category, as well as payments of severance indemnities since the start of 2007 under the reform of these indemnities by the Budget Law.

For defined-benefit plans, the cost of the benefits provided is calculated by performing actuarial valuations at the end of each financial period. Liabilities for post-employment benefits shown in the balance sheet consist of the present value of the liabilities for defined-benefit plans adjusted to take account of the actuarial gains and losses that have not yet been recognised and of any past service costs that have not yet been recognised. Any net assets resulting from this calculation are limited to the value of the actuarial losses not yet recognised and to past service costs that have not yet been recognised, plus the net present value of any reimbursements and reductions in future contributions to the plan.

During the current year, the Group applied IAS 19 retroactively in accordance with the transitory provisions set forth by the standard.

In addition to simple clarifications and terminology, the amendments to the standard set forth the obligation of recognising actuarial gains and losses in the statement of comprehensive income, eliminating the possibility of using the corridor method.

## ***Trade payables***

Trade payables are booked at their face value.

### ***Financial liabilities***

The financial liabilities are classified according to the substance of the contractual agreements that generated them and according to the respective definitions of financial liabilities

### ***Equity instruments***

The equity instruments issued by the Company are booked on the basis of the amount received, net of direct issue costs. They are defined as contracts that give a right to benefit from the residual interests in the Company's assets after all liabilities have been deducted. The accounting principles used for specific financial liabilities and equity instruments are indicated below.

### ***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 and 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/or the company has transferred the main risks and rewards of ownership to the customer.

### ***Foreign currency transactions***

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.

In accordance with IAS 21, exchange differences originating from intragroup foreign currency loans are recognised in profit or loss.

### ***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 Company 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.

On the basis of the new changes introduced by the Italian 2016 "Legge di Stabilità" (Stability Law) already approved when these financial statements were drafted, which provide for a reduction in the IRES rate starting from the year that will end on 31 December 2017 (24% reduction), the deferred taxes were adjusted to the new rate and to the extent of realisation and extinction on a date after 31 December 2016.

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 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 financial statements.

#### *Financial assets – Estimate of the degree of recoverability*

The price paid by the Company for corporate acquisitions reflects a goodwill element. Financial assets are 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. If the future scenarios for the Company and the market turn out to be different from those assumed when developing the forecasts, the value of financial assets may have to be written down.

#### *Inventory valuation and provision for slow-moving and obsolete goods*

The Company 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 Company, 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 Company 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 Company 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 Company also consults with its lawyers on the problems involved in the disputes that arise as part of the Company'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 Company'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 Company's balance sheet, financial position, results and cash flow.

## **Financial risks and derivatives**

The Company 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 Company is exposed fall into the following categories:

### **a) Exchange rate risk**

The Company 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.

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

### **b) Credit risk**

The Company deals only with known, reliable customers. The Company has procedures for assigning credit to its customers that limit the maximum exposure to every position. In addition, the Company has extensive insurance coverage against its receivables from foreign customers.

The Company 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 Company to the risk of fluctuating cash flows associated with interest payments. Fixed-rate loans expose the Company to the risk of change in the fair value of the loans themselves.

The Company'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 Company 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 Company'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 Company 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.

## **2) OTHER INFORMATION**

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### *Presentation of the explanatory notes*

For the purpose of a better understanding, all amounts reported below are stated in thousands of Euro, except where otherwise indicated.

### 3) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

#### 1. CURRENT ASSETS

##### 1.a. Inventories

Inventories are analysed as follows at 31 December 2015:

	31-Dec-15	31-Dec-14
Raw, ancillary and consumable materials	6,297	6,115
Work in progress	1,471	1,636
Finished products	65,773	64,520
Buildings held for sale	2,340	2,480
Provision for obsolescence	(6,811)	(7,006)
	<b>69,070</b>	<b>67,745</b>

The overall value of inventories rose (+1.3 million, +2%) compared to 31 December 2014. This improvement, in terms of percentage increase, is however less than the greater volumes produced during the year owing to the Company's efforts to optimise the level of inventory by carefully scheduling production and the disposal activities.

Inventories of finished products are shown net of a provision for obsolescence of Euro 6,276 thousand at 31 December 2015, 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 disposal activities carried out in the year. The 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 December 2014, 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 2,340 thousand of buildings held for sale (mainly apartments received in exchange), net of an impairment charge of Euro 535 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**

Trade receivables are made up as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Receivables due from third parties	50,900	46,782
Receivables due from subsidiaries	11,776	7,418
Receivables due from related parties	32	32
Due from parent companies	39	39
Provision for bad and doubtful accounts	(1,460)	(1,169)
	<b>61,287</b>	<b>53,102</b>

Trade receivables due from third parties went up +8.8%, less than the growth in turnover recorded.

Receivables from subsidiaries were affected both by the higher sales made to the Group companies and by the appreciation of the dollar against the euro.

Receivables due from subsidiaries relate to transactions of a commercial nature (sales of tiles) with Gres Panaria Portugal, Florida Tile, Panariagroup USA and Lea North America. It should be noted that these transactions account for only 6.8% of the Company's total turnover.

The item "Receivables" due from third parties" include around Euro 3.4 million in receivables overdue by more than 120 days (equal to roughly 5.6% of total receivables); the provision for bad and doubtful accounts, amounting to Euro 1.5 million, reflects an economic estimate of the recoverable value of total receivables, based on the information available at the time of preparing the financial statements.

The Company did not factor any of its receivables in the year ended 31 December 2015.

### **1.c. Due from tax authorities**

The amounts due from tax authorities are made up as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
VAT receivable	1,306	1,047
Income tax receivable	556	197
IRES receivables on 07/11 IRAP deductibility	1,729	1,729
Other tax receivables	285	285
	<b>3,875</b>	<b>3,258</b>

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

The item "Income tax receivable" as at 31 December 2015 is determined by the excess IRAP advances paid with respect to taxes due, and it amounted to Euro 240 thousand. Residual receivables for ACE not deducted for the year 2014 was Euro 104 thousand.

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:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Advances to social security institutions	98	109
Advances to suppliers	150	119
Rebates from suppliers and credit notes to be received	252	310
Receivables due from employees and third parties	203	228
Earthquake grants receivable	310	485
Other grants receivable	232	124
Insurance payouts receivable	56	0
Receivables for Energy Efficiency Certificates	414	307
Receivables due from energy income	1,211	615
Receivables for dividends from subsidiaries	0	2,000
Financial derivatives – positive fair value	167	0
Other	231	34
<b>Total other current receivables</b>	<b>3,324</b>	<b>4,331</b>
<b>Total current accrued income and prepaid expenses</b>	<b>580</b>	<b>394</b>
	<b>3,904</b>	<b>4,725</b>

The line “Earthquake grants receivable” refers to the claims presented (and accepted) 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. The receivable decreased due to the collection of some ‘Stati di Avanzamento’ (progress reports) presented in 2015.

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

“Receivables for dividends from subsidiaries” referred to the dividends received from the subsidiary Gres Panaria Portugal, resolved in 2014 and collected in 2015; the dividends resolved in 2015, which amounted to Euro 1,980 thousand, were entirely collected by the end of the year.

“Other” includes Euro 141 thousand relating to recoverable VAT part of write-down of receivables and Euro 75 thousand for excise duties on fuel refunds requested.

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:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Bank and post office deposits	5,469	1,010
Cheques	-	-
Cash and equivalents on hand	6	10
	<b>5,475</b>	<b>1,020</b>

The changes in financial position during 2015, compared with 2014, are shown in the cash flow statement contained in the earlier section with the financial statements.

## **NON-CURRENT ASSETS**

### **2.a Intangible assets**

"Intangible assets" at 31 December 2015 amount to Euro 1,995 thousand, considerably higher than the figure of Euro 746 thousand reported at 31 December 2014.

Changes during the year can be summarised as follows:

	<b>2015</b>	<b>2014</b>
<b>Beginning Balance</b>	<b>746</b>	<b>647</b>
Additions	1,479	455
Reclassifications from tang. assets	100	-
Retirements	-	-
Amortisation charge	(330)	(356)
<b>Ending balance</b>	<b>1,995</b>	<b>746</b>

The increases of the year mostly refer to software acquisitions and development tied to the start-up of the IT system integration project on Group level, on a single platform (SAP), not yet up and running and therefore pending amongst the construction in progress.

The changes during the year are reported in attachment 2 to these notes.

### **2.b Property, plant and equipment**

The net book value of property, plant and equipment at the end of the period is as follows

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Land and buildings	676	699
Plant and machinery	30,060	30,245
Equipment and other assets	6,571	6,932
Construction in progress	6,649	146
	<b>43,956</b>	<b>38,022</b>

Changes during the year can be summarised as follows:



	2015	2014
<b>Beginning Balance</b>	<b>38,022</b>	<b>39,772</b>
Additions	15,857	7,922
Retirements	(406)	(12)
Amortisation charge	(9,417)	(9,660)
Reclassifications to intang. assets	(100)	0
<b>Ending balance</b>	<b>43,956</b>	<b>38,022</b>

The changes for the year are reported in an attachment.

The main investments in the year were as follows:

- capital expenditure of Euro 1.0 million for investments in the "Mixing" departments
- capital expenditure of Euro 0.9 million for investments in the "Press lines" departments
- capital expenditure of Euro 2.7 million for investments in the "Glazing" departments
- capital expenditure of Euro 0.9 million for investments in the "Furnaces" departments
- capital expenditure of Euro 1.0 million for investments in the "Selection" departments
- capital expenditure of Euro 0.6 million for investments in the "Cutting and rectification" departments
- capital expenditure of Euro 0.7 million for upgrading of "Buildings"
- capital expenditure of Euro 0.8 million in "Equipment and other assets"
- capital expenditure of Euro 0.6 million for investments in generic plants

The increase also includes "Construction in progress" amounting to Euro 6,649 thousand, mainly regarding the construction of the third line for processing gres laminate for Euro 4.5 million and the line for polishing and cutting gres laminate in the 5-mm thickness for Euro 1.7 million.

## **2.c Financial assets**

At 31 December 2015, this caption comprises:

	31-Dec-15	31-Dec-14
Equity investments in subsidiaries	89,862	89,862
Investment in Indian JV	180	352
Other equity investments	5	5
	<b>90,047</b>	<b>90,219</b>

"Equity investments in subsidiaries" are made up as follows:

	31-Dec-15	31-Dec-14
Gres Panaria Portugal S.A.	42,597	42,597
Panariagroup USA	46,729	46,729
Montanari Ceramiche S.r.l.	496	496
Panariagroup Immobiliare	40	40
	<b>89,862</b>	<b>89,862</b>

Set out below is a listing indicating for each controlled entity the information required by point 5 of article 2427 of the Civil Code:

	Share capital K EUR / K USD	Value at Equity Method (1) K EUR	Profit / Loss 2015 KEUR	% held	Amount in the financial statements K EUR
Gres Panaria Portugal S.A	Euro 16,500	50,750	2,694	100 %	42,597
Panariagroup USA (2)	65,500 USD	55,178	7,196	100 %	46,429
Montanari Ceramiche srl	Euro 48	472	(65)	100 %	496
Panariagroup Immobiliare S.r.l.	Euro 10	26	(4)	100 %	40

(1) These amounts take account of the adjustments needed to comply with the accounting policies used for the preparation of the consolidated financial statements.

(2) The Panariagroup USA figures relate to the sub-consolidation of the American sub-holding company and, accordingly, they include Florida Tile and Lea North America.

Panariagroup also participates in a Joint Venture Company (JVC) called "Asian Panaria" with head office in Ahmedabad, in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by AGL Ltd, a leading manufacturer in the Indian market. By means of this joint venture, Panariagroup has direct entry into a market considered to be of great potential, even for our sector.

## Impairment Testing

As stated earlier in the section on Accounting Principles, at least once a year, even if there is no evidence of loss, but always whenever any critical indications of impairment arise, the Company performs impairment tests as required by IAS 36 in order to verify the recoverability of the above equity investments.

Impairment testing on the separate financial statements of Panaria Spa identified as CGUs to be subjected to testing for recoverability the individual equity investments recorded (legal entities). The impairment test was performed assuming the recoverable amount to be the value in use (equity value), in consideration of the fact that it is not possible to reliably establish a fair value net of selling costs.

Value in use (equity value) was determined by subtracting from the enterprise value the net financial indebtedness of each individual company as at 31 December 2015. The enterprise value is derived from the present value of future cash flows expected to be generated by each equity investment, over the explicit forecast period and subsequent thereto (by means of the determination of a terminal value attributable thereto).

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 2016-2020 Business Plan approved by the Board of Directors of the Company on 18 March 2016. The impairment method was approved by the Board of Directors on 13 November 2015. A terminal value was calculated at the end of the explicit forecast period, by applying a perpetuity. For the determination of the cash flow on which the terminal value was based,

use was made of operating income net of taxation (Net Operating Profit Less Adjusted Tax - NOPLAT) of the last year of the business plan, estimated by management to be an indicator of a "normalised" flow. The growth rate used to calculate the perpetuity, in line with that used for testing of the consolidated financial statements and in line with testing performed in prior years, was prudently set at zero.

The discount rate used to discount expected cash flows was 6.56% (7.84% in 2014). 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 Company 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 based on 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 a more conservative way in light of the current uncertainties in the ceramics industry. To this end, it should be noted that the continuation of a situation of scarce dynamism in the trend of demand in the ceramic industry in the main European markets, which represent a significant portion of the Group's turnover, has led management to maintain conservative growth assumptions in line with trends defined by the most recent studies published by "Confindustria Ceramica" and by "Cresme", without making any assumptions for any additional efficiency of the current productive and organisational structure of the Group. In addition, as mentioned previously, the tests were carried out considering a zero rate of further growth at the end of the explicit forecast period.

Set out below is the outcome of the tests:

#### Gres Panaria Portugal

Against a carrying value of the investment in Gres Panaria Portugal of Euro 42.6 million, an equity value has emerged from the above tests of Euro 111.3 million.

#### Panariagroup USA

Based on the above parameters, the Equity Value of Panariagroup USA at 31 December 2015 is USD 227.9 million, compared with the carrying value of the investment of Euro 46.7 million.

### Montanari Ceramiche S.r.l.

Against a total carrying value of the equity investment in Montanari Ceramiche S.r.l. of Euro 0.5 million, an equity value has emerged from the above tests of Euro 1.1 million.

#### *Impairment - Sensitivity Analysis*

The subsidiaries' Equity Values, as affected by the main assumptions (WACC and EBITDA), are shown below.

<b>Amounts in millions of Euro</b>	<b>WACC used</b>	<b>WACC +1.0%</b>
<i>Gres Panaria (*)</i>	111.3	95.4
<i>Panariagroup USA (**)</i>	227.9	204.8
<i>Montanari (*)</i>	1.1	0.8

(\*) Amounts in Euro/million

(\*\*) Amounts in USD/million

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

<b>Amounts in millions of Euro</b>	<b>EBITDA used</b>	<b>EBITDA - 10%</b>
<i>Gres Panaria</i>	111.3	103.4
<i>Panariagroup USA (*)</i>	227.9	129.5
<i>Montanari</i>	1.1	0.4

(\*) Amounts in millions of USD

Upon a change in the main assumptions, according to the above tables, no impairment of equity investments would emerge for the equity investments of Panariagroup USA and Gres Panaria, while a write-down of about Euro 100 thousand would be necessary for Montanari if the EBITDA of the plan should drop 10% with respect to the assumptions of the Plan.

### **2.d Deferred tax assets**

The balance is as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Deferred tax assets:		
- taxed provisions	2,997	3,290
- tax losses	6,859	8,125
- for ACE not deducted	216	232
<b>Deferred tax assets</b>	<b>10,072</b>	<b>11,647</b>

Deferred tax assets for "tax losses" refer to the economic results from 2012 to 2015, which recorded negative taxable income.

With respect to this tax loss, the business plans prepared and approved by Group management, show future results that will allow the recovery of the deferred tax assets recorded. The recoverability of the deferred tax assets is subject to the ability of the

Company to produce, in the medium term, positive results that will allow the recovery of the deferred tax asset, in line with forecasts included in the business plans approved by directors on 18 March 2016.

As from the 2008 tax return (for 2007 income), the Company 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 Ceramiche 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.

## **2.e Other non-current assets**

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Intercompany loans receivable	9,100	12,920
Loans due from third parties	365	380
Other non-current assets	146	149
	<b>9,611</b>	<b>13,449</b>

The item "Intercompany loans receivable" consists of loans provided by the Company to the indirectly held subsidiary Florida Tile Inc of Euro 8,450 thousand, a loan to Montanari Ceramiche S.r.l. of Euro 550 thousand and a loan to Panariagroup Immobiliare S.r.l. of Euro 100 thousand.

All the loans granted to Group foreign companies are interest bearing at an interest rate determined on an arm's length basis.

The item "Loans due from third parties" includes a loan of Euro 345 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".

They were partially collected for a total of Euro 177 thousand in January 2016.

The item "Other non-current assets" mainly relates to guarantee deposits for utilities.

#### 4) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

##### **CURRENT LIABILITIES**

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

Short-term financial payables are made up as follows:

	31-Dec-15	31-Dec-14
Current account overdrafts	5,400	3,093
Export advances	5,250	8,408
Medium/Long-term loans	20,095	24,894
	<b>30,745</b>	<b>36,395</b>

The changes in financial position during 2015, compared with 2014, are shown in the cash flow statement contained in the earlier section with the financial statements.

The Company's total borrowing facilities granted by banks at 31 December 2015 amounted to Euro 96 million, of which Euro 10.7 million had been drawn down at that date.

The item "Medium/Long-term loans" refers to the current portion of unsecured loans and commented on in more detail in the section "Due to banks and other sources of finance" under non-current liabilities.

##### **3.b Trade payables**

The trend in trade payables is as follows:

	31-Dec-15	31-Dec-14
Due to third parties	44,930	35,851
Due to subsidiaries	1,333	957
Due to related parties	204	27
Due to parent companies	-	-
	<b>46,467</b>	<b>36,835</b>

Trade payables (including payables due to subsidiaries, related parties and parent companies) relate to payables due to suppliers for the purchase of goods and services for normal business activities. Their increase is due to the growth in investments and volumes produced recorded in 2015.

##### **3.c Due to tax authorities**

This caption comprises:

	31-Dec-15	31-Dec-14
Withholding tax	2,226	2,191
Income tax	146	236
	<b>2,372</b>	<b>2,427</b>

### 3.d Other current liabilities

At 31 December 2015, this caption comprises:

	31-Dec-15	31-Dec-14
Due to social security institutions	3,332	2,613
Due to employees	4,288	4,948
Due to customers	3,088	3,837
Due to agents	5,713	5,789
Financial derivatives – negative fair value	57	106
Due for EUA shares to purchase	482	0
Other	101	102
<b>Total current payables</b>	<b>17,061</b>	<b>17,395</b>
Deferred income from earthquake insurance payouts	135	135
Other accrued expenses and deferred income	81	105
<b>Total current accrued expenses and deferred income</b>	<b>216</b>	<b>240</b>
	<b>17,277</b>	<b>17,635</b>

"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.

The item "Due for EUA shares to purchase" refers to the value of the greenhouse gas emission shares to purchase in 2016 to meet the CO2 emissions of the Company recorded in 2015.

## NON-CURRENT LIABILITIES

### 4.a Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31-Dec-15	31-Dec-14
<b>Employee severance indemnities</b>	<b>5,756</b>	<b>6,501</b>

The principal technical bases used for the actuarial calculation in accordance with IAS 19 are as follows:

#### Demographic assumptions

*Average retirement age:* 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 %

#### Financial assumptions

The following discount rates have been used:

31-Dec-15: IBoxx Eurozone Corporate AA discount rate = 2.03 %

31-Dec-14: IBoxx Eurozone Corporate AA discount rate = 1.49 %

*The inflation rates* taken into consideration are as follows:

Age group	2015	2014
2015	-	0.60%
2016	1.50%	1.20%
2017	1.80%	1.50%
2018	1.70%	1.50%
2019	1.60%	2.00%
2020 and beyond	2.00%	2.00%

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

<b>Balance at 31-Dec-14</b>	<b>6,501</b>
Charge to the income statement	93
Charge to "Other Comprehensive Income"	(340)
Portion paid out during the year	(498)
<b>Employee severance indemnities at 31-Dec-15</b>	<b>5,756</b>

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



#### **4.b Deferred tax liabilities**

Deferred tax liabilities at 31 December 2015 were composed as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Deferred tax liabilities:		
- accelerated amortisation/depreciation	108	127
- valuation of severance indemnities according to IFRS	(51)	(145)
- valuation of agents' termination indemnities according to IFRS	164	297
- valuation of inventories	1,225	1,403
- exchange differences on valuation	455	411
- other	8	25
<b>Deferred tax liabilities</b>	<b>1,909</b>	<b>2,118</b>

#### **4.c Provisions for risks and charges**

Provisions for risks and charges are made up of:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Provision for agents' termination indemnities	3,207	3,043
Other provisions	535	661
	<b>3,742</b>	<b>3,704</b>

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 2014	2.84%
31 December 2015	1.66%

The discount rates have been applied to a projection of expected future cash flows for agents' termination indemnities based on past payments of this kind over the last five years. For prudence sake, a maximum limit of 20 years was chosen for the period during which payments from this provision will be made, even though most of the agency network is made up of legal entities.

The main items that make up "Other provisions" are the "Provision for the risks of ongoing disputes", equal to Euro 155 thousand, and the "Provision for returns", amounting to Euro 205 thousand.

The Company's tax years from 2011 onwards are still open for assessment by the tax authorities. Management, with support from the Company's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the financial statements.

On 10 December 2015 the company received a recovery statement from Inland Revenue concerning the tax audit previously made in 2012 and partly settled in 2013 regarding the charges of using "Tax credit not due" for which an appeal was lodged in February 2016. At present, the risk has been categorised as "possible" by Company consultants, so no

provision was recognised in the financial statements, in compliance with the accounting principles.

#### **4.d Due to banks and other sources of finance**

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

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Medium/Long-term loans	44,555	32,726
	<b>44,555</b>	<b>32,726</b>

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

In 2015, new loans were taken out for a total amount of Euro 30 million.

There are the following guarantees in respect of these loans in the bank's favour.

- Mortgage Security for Euro 22,500 thousand issued by the affiliated company Immobiliare Gemma S.p.a.;
- Guarantee for Euro 8,750 thousand issued by the parent company Finpanaria S.p.a.

As pointed out in the related parties section, the Company pays a consideration for these guarantees received.

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

	<b>31-Dec-15</b>
<b>2016</b>	<b>20,095</b>
2017	18,575
2018	12,155
2019	3,470
2020	1,996
2021	1,692
2022	1,667
2023	1,667
2024	1,667
2025	1,667
<b>Long-term</b>	<b>44,555</b>
<b>Financial payables</b>	<b>64,650</b>

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

#### **4.e Other non-current liabilities**

At 31 December 2015, this caption comprises:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Due to suppliers beyond 12 months	1,503	184
Taxes beyond 12 months	0	139
Deferred income on refunds for earthquake	2,151	1,602
	<b>3,654</b>	<b>1,925</b>

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 agreed for beyond 12 months; the increase is due to the considerable investments made during the year.

"Due to tax authorities beyond 12 months" referred to the division into instalments of taxes due following the tax inspection of Panariagroup Industrie Ceramiche S.p.A. whose payment will end in 2016.

"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.

## **EQUITY**

Equity consists of:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Share capital	22,678	22,678
Share premium reserve	60,784	60,784
Revaluation reserves	4,493	4,493
Legal reserve	3,958	3,958
Other reserves	52,003	54,273
Profit/Loss for the year	(1,103)	(2,520)
	<b>142,813</b>	<b>143,666</b>

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

The equity shown in the balance sheets at 31 December 2014 and 31 December 2015 includes the impacts of the transition from Italian GAAP to International Financial Reporting Standards, which have been booked to "Other reserves".

The main items making up equity 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.

### *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 Panariagroup Industrie Ceramiche S.p.A.;
- Euro 53,114 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 sustained no changes compared to the previous year since there were no profits regarding 2014 to allocate.

### *Other reserves*

The "Other equity reserves" are made up as follows:

	31-Dec-15	31-Dec-14
Extraordinary reserve	50,435	50,435
Payments on capital account	1,077	1,077
Retained earnings/losses and other reserves	491	2,761
	<b>52,003</b>	<b>54,273</b>

The *Extraordinary reserve* remained unchanged compared to 2014.

The reserve for "*Payments on capital account*" relates to payments made by shareholders in prior years and not tied to future capital increases.

The "*Retained earnings and other reserves*" item includes a merger surplus of Euro 3,108 thousand that reflects the difference between the carrying amount of equity investments of the merged companies and the related equity at the date of the 2004 merger (of Euro 6,062 thousand), less the replenishment of restricted reserves pertaining to the merged companies.

The decrease compared to the previous year is due to the effect of the losses carried forward regarding 2014.

### Treasury shares

As previously stated, the treasury shares in portfolio have been accounted for as a deduction from equity, in accordance with relevant accounting standards.

At 31 December 2015, 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 compared to 2014.

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.

Set out below is an analysis of distributable reserves in accordance with article 2427 of the Italian Civil Code:

		summary of uses in the three previous years			
		Possible utilisation	Amount available	to cover losses	for other reasons
SHARE CAPITAL	22,677,645.50				
SHARE PREMIUM RESERVE	60,783,618.45	A B*	60,783,618.45		
REVALUATION RESERVE 576/75	27,888.67	A B**	27,888.67		
REVALUATION RESERVE 72/83	296,714.32	A B**	296,714.32		
REVALUATION RESERVE EX LG 413/91	64,630.67	A B**	64,630.67		
REVALUATION RESERVE LG 342/2000	478,927.54	A B**	478,927.54		
REVALUATION RESERVE 342/2000	3,624,772.26	A B****	3,624,772.26		
LEGAL RESERVE 5%	3,958,872.91	B***	0.00		
TREASURY SHARES RESERVE	1,614,284.94	-	0.00		
RESERVE SPEC. DPR 22/12/86	3,873.43	A B C	3,873.43		
RESERVE SPEC. LG 399/87	5,050.95	A B C	5,050.95		
GOVERNMENT GRANT RESERVE (50%)	6,931.63	A B C	6,931.63		
RESERVE UNDER L.130/83	3,767.02	A B C	3,767.02		
MERGER SURPLUS RESERVE	3,107,852.68	A B C	3,107,852.68		
EXTRAORDINARY RESERVE	50,434,789.19	A B C	50,434,789.19		
INTEREST-FREE LOAN ON CAPITAL ACCOUNT	1,076,812.63	A B**	1,076,812.63		
RESERVE ART.55 597/73	51,645.69	A B C	51,645.69		
RESERVE L.696 55-597	42,788.45	A B C	42,788.45		
IAS RESERVE	219,471.22	B	0.00		
LOSSES CARRIED FORWARD	(2,520,380.90)	-			
RETAINED EARNINGS	9,073.80	A B C	9,073.80		
NET PROFIT (LOSS)	(1,103,081.49)	-	-1,103,081.49		
<b>Reserve not available****</b>			62,728,592.28		
<b>Residual amount available for distribution</b>			57,290,545.10		

\* pursuant to Article 2431 of Civil Code may be distributed only if the legal reserve has reached the limit of 1/5 of the share capital. However, it is available to cover losses, increase of share capital and increase the legal reserve (Available but not currently available for distribution).

\*\* can be distributed only by adopting the procedure under Article 2445 cc paragraphs 3 and 4.

\*\*\* only when the reserve has reached one fifth of the share capital the excess becomes actually available (art.2430 cc)

\*\*\*\* includes the fee to cover the costs and expansion, research and development and advertising costs not yet amortized.

\*\*\*\*\*converted into reserves available with Extraordinary General Meeting of 07.09.2004, in accordance with the provisions of art.2445 seconds and third paragraphs.

#### Legend

**A** For capital increase

**B** For cover losses

**C** For distribution to shareholders

## **TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES**

The following financial derivative contracts taken out with leading banks were outstanding as of 31 December 2015:

- "Interest rate swap" with a notional underlying principal of Euro 750 thousand to hedge interest rates on outstanding loans obtained during 2012 with expiry 30/09/2016.
- "Interest rate swap" with a notional underlying principal of Euro 3,750 thousand to hedge interest rates on outstanding loans obtained during 2012 with expiry 31/08/2017.
- "Interest rate swap" with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on portion of the total existing and outstanding loan obtained during 2015 with expiry 31/12/2019.
- "Interest rate swap" with a notional underlying principal of Euro 20,000 thousand to hedge interest rates on portion of the total existing and outstanding loan obtained during 2015 with expiry 31/12/2020.
- Forward sale and purchase of foreign currency (USD) for a total of Euro 8,000 with staggered maturities starting from 29/01/2016 to 30/12/2016.

These contracts are shown at fair value under the items:

- "Other current assets" for a total amount of Euro 167 regarding the positive mark to market of the transactions indicated above and signed during 2015 at the end of the year;
- "Other current liabilities" for a total amount of Euro 57 thousand regarding the mark to market of the transactions signed during 2012 at the end of the year.

Adjusting these instruments to fair value at 31 December 2015 involved booking income of Euro 217 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 GIVEN**

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

The Company gave the following guarantees only to subsidiaries:

- in favour of Florida Tile Inc., being USD 2.5 million of bank guarantees granted by a bank to the US company; USD 1.2 million to a Kentucky governmental authority for the conduct of production activities at the plant in Lawrenceburg, KY; and USD 1.4 million and 2.5 million to suppliers of plants;
- in favour of Panariagroup USA for USD 9.6 million on loans granted by a bank;

- in favour of Gres Panaria Portugal for the total amount of Euro 1.7 million of bank guarantees granted by an Italian bank to the Portuguese company and Euro 1.3 million to suppliers of plants.

The loan contracts do not contain any covenants.



## 6) COMMENTS ON THE MAIN INCOME STATEMENT CAPTIONS

### 6. REVENUES

#### 6.a Revenues from sales and services

Sales revenues are analysed by geographical area as follows:

	31-Dec-15	31-Dec-14	Change
Italy	72,796	65,410	7,386
EU countries	48,539	48,541	(2)
Non-EU countries	40,311	35,015	5,296
Intercompany	13,047	10,881	2,166
(Less) Rebates	(1,855)	(2,360)	505
<b>Total revenues</b>	<b>172,838</b>	<b>157,487</b>	<b>15,351</b>

Panariagroup Industrie Ceramiche S.p.A. recorded a considerable growth in total revenues of 9.7% (Euro 15.3 million).

More details can be found in the directors' report.

#### 6.b Other revenues

"Other revenues" are made up as follows:

	31-Dec-15	31-Dec-14	Change
Expense recoveries (displays, transport)	1,533	956	577
Gains on the sale of property	193	38	155
Out-of-period income	615	546	69
Intercompany services	2,525	842	1,683
Compensation for damages	177	447	(270)
Capitalisation of own work	753	-	753
Energy income	2,409	3,649	(1,240)
Grants	516	678	(162)
Other	169	240	(71)
<b>Other revenues</b>	<b>8,890</b>	<b>7,396</b>	<b>1,494</b>

"Expense recoveries" include transport and sample costs recharged to customers.

The item "Capitalisation of own work" refers to the personnel employed for the implementation of the new SAP management platform in progress for Euro 660 thousand, in part re-invoiced to the foreign subsidiaries pursuant to the "Cost sharing" contract the parties entered into, and to the costs of internal personnel used in building the new gres laminate production and processing lines for Euro 93 thousand.

"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 and income coming from the trading of the surplus greenhouse gas emission shares (EUA).

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).

## **7. COST OF PRODUCTION**

### **7.a Raw materials**

"Raw materials" are made up as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Raw materials	20,880	17,467
Ancillary and consumable materials	9,698	7,720
Finished and semi-finished products and goods for resale	10,576	6,587
Packaging	7,752	6,666
Remaining change	(182)	(115)
Other	760	718
<b>Raw materials</b>	<b>49,484</b>	<b>39,043</b>

The growth in item "Raw materials" is attributable to the increase of sqm produced in the plants, as already described in the Directors' report.

The item "Finished and semi-finished products and goods for resale" increased due to the increase in purchases of ceramic material from third parties.

### **7.b Services, leases and rentals**

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

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Property rental	5,608	5,620
Rentals of plant, vehicles, computers	2,025	2,019
Commissions	11,210	11,066
Utilities	19,373	18,087
Commercial expenses and advertising	4,310	4,157
Sub-contract work	10,103	7,333
Maintenance	4,816	3,881
Transportation	6,468	5,428
Industrial services	5,301	4,504
Directors' and statutory auditors' fees	745	842
Consulting fees	2,292	1,617
Insurance	471	464
Other	4,342	3,776
<b>Services, leases and rentals</b>	<b>77,064</b>	<b>68,794</b>

"Property rental" includes the rents that the Company 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 is for eight years (with tacit renewal on first expiry in 2011 for another eight years) with an annual rent initially set at Euro 4,500 thousand and which is increased each year in line with ISTAT statistical data. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

### **7.c Personnel costs**

Personnel costs passed from Euro 46,616 thousand at 31 December 2014 to Euro 47,063 thousand at 31 December 2015, marking a slight increase of 1%. The impact on the value of production is less than last year by almost 3%.

Personnel costs can be broken down as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Wages and salaries	33,368	33,308
Social security contributions	11,411	11,085
Severance indemnities	2,284	2,223
	<b>47,063</b>	<b>46,616</b>

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

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Managers	36	34
Supervisors	34	35
White collar	214	222
Foremen	24	24
Blue collar	481	489
	<b>789</b>	<b>804</b>

The increase in personnel costs, although the number of workforce has decreased, is due to the higher number of working hours, mainly resulting from the higher production reported in the plants.

### **7.d Other operating expenses**

"Other operating expenses" are made up as follows:

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Out-of-period expenses	207	179
Gifts	46	47
Contributions to trade associations	91	88
Losses on disposals	130	175
Indirect taxes	824	856
Office equipment	161	190
Other	284	299
	<b>1,743</b>	<b>1,834</b>

## **8. DEPRECIATION, AMORTISATION AND PROVISIONS**

### **8.a Depreciation and amortisation**

The charge for depreciation and amortisation for the year ended 31 December 2015 is down slightly on prior year from Euro 10,016 thousand to Euro 9,747 thousand.

### **8.b Provisions and impairments**

In particular, the caption "Provisions and impairments", amounting to Euro 1,711 thousand, includes the write-down of receivables totalling Euro 1,328 thousand, provisions made for agents' termination indemnities of Euro 308 thousand, and provisions to adjust the property held for sale reserve of Euro 75 thousand.

## 9. FINANCIAL INCOME (EXPENSE)

### 9.a Financial income (expense)

	31-Dec-15	31-Dec-14
Bank interest expense	(71)	(155)
Interest expense on medium/long-term loans	(677)	(1,039)
Financial expense on severance indemnity liability	(93)	(184)
Fair value losses on derivatives	-	-
Other	(179)	(202)
<b>Total financial expense</b>	<b>(1,020)</b>	<b>(1,580)</b>
Bank interest income	2	31
Interest on receivables	32	49
Fair value gains on derivatives	216	12
Interest receivable on intercompany loans	274	415
<b>Total financial income</b>	<b>524</b>	<b>507</b>
<b>TOTAL FINANCIAL INCOME AND EXPENSE</b>	<b>(496)</b>	<b>(1,073)</b>
Exchange losses	(1,759)	(615)
Exchange gains	3,701	3,087
<b>TOTAL EXCHANGE GAINS AND LOSSES</b>	<b>1,942</b>	<b>2,472</b>
Write-backs on equity investments in subsidiaries	-	-
Impairment losses on equity investments in subsidiaries	-	-
Impairment of JV equity investments (Equity Method)	(164)	(139)
Dividends from subsidiaries	1,980	2,000
<b>TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS</b>	<b>1,816</b>	<b>1,861</b>
Financial losses on discounting	(340)	(423)
Financial gains on discounting	-	-
<b>DISCOUNTING GAINS (LOSSES)</b>	<b>(340)</b>	<b>(423)</b>
<b>Total financial income (expense)</b>	<b>2,922</b>	<b>2,837</b>

The Total of financial income and expenses is in line in comparison with the previous year, as a result of two opposite trends. One is related to the reduction of interest rates with a decrease in financial expenses, and on the other the exchange trend, while very positive, has determinate to the Company a profit lower than the previous year.

## Financial income and expense - Sensitivity analysis

As previously stated in the section on "Financial risks", the Company 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 2015 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

### *Interest rates*

<b>Rate</b>	<b>Higher (Lower) Pre-tax profit € mln</b>
<b>+ 0.50%</b>	-0.3
<b>+ 1.00%</b>	-0.7
<b>+ 2.00%</b>	-1.3

### *Exchange rates (Eur/USD)*

<b>Rate</b>	<b>Higher (Lower) Pre-tax profit € mln</b>
<b>1.00</b>	+3.1
<b>1.10</b>	+0.6
<b>1.20</b>	-1.5
<b>1.30</b>	-3.3
<b>1.40</b>	-4.8
<b>1.50</b>	-6.1

\* Hypothesis of a constant interest rate over the entire period

Sensitivity analysis showed that even in case of particularly unfavorable scenarios in exchange and interest rates, the occurrence of which is not likely, however, the company's balance sheet and financial strength would not be compromised.

## 10. INCOME TAXES

### 10.a Income taxes

Income taxes for the financial year have generated an amount of loss of Euro 424 thousand.

A reconciliation of the main differences between the theoretical tax charge and the actual tax charge is given below.

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

##### THEORETICAL TAX RATE

<b>A</b>	Pre- Tax profit	(679)
<b>B</b>	Personnel costs	47,062
<b>C</b>	Net finance costs (net of write-downs and revaluations of investments)	(942)
<b>D</b>	IRAP deduction from tax wedge	45,882

			Theoretical tax	Theoretical "Tax Rate"
<b>A</b>	Theoretical taxable income for IRES purpose	(679)	(187)	27.50%
<b>A+B+C-D</b>	Theoretical taxable income for IRAP purpose	(441)	(17)	3.90%
<b>CF1</b>	Theoretical Tax Charge		(204)	30.03%
	No taxation of earthquake grants		(113)	16.69%
	Italian's allowance for corporate equity (ACE)		(146)	21.50%
	Dividends - Taxation 5%		(517)	76.18%
	IRES Non-deductible costs		383	-56.42%
	IRAP Non-deductible costs		125	-18.40%
	Benefit from fiscal consolidation		(127)	18.70%
	Deferred tax adjustment due to change in tax rate		1,014	-149.34%
	Other		10	-1.41%
	<b>ACTUAL tax charge</b>		<b>424</b>	<b>-62.44%</b>

The balance of taxes is negative even though there is a negative pre-tax result.

On the date these financial statements were drafted, the change in the IRES rate, from 27.5% to 24%, had been resolved starting from the year that will end on 31 December

2017. Therefore, the Company adjusted its deferred taxes recorded in the financial statements less the estimates of recovering them in financial year 2016, with a negative effect amounting to about Euro 1 million.

IAS 12 in fact establishes that: *"The deferred tax assets and liabilities must be assessed with the tax rates expected to be applicable in the year when the tax asset will be realised or when the tax liability will be extinguished, on the basis of the tax rates (and tax legislation) established by provisions in effect or basically in effect on the date of reference of the financial statements"*.

## **BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE**

As required by IAS 33, losses per share of Euro 0.024 are disclosed at the foot of the income statement (loss of Euro 0.056 per share for the year ended 31 December 2014).

Basic and diluted earnings (losses) per share are the same because there are no diluting factors.

## **SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS**

No events/transactions 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 previously specified in the relevant paragraph, the negative effect of the income taxes item was caused by the net adjustment of deferred taxes recorded in the financial statements to the new IRES rate reduced from 27.5% to 24%, whose provision was already in effect at the date the financial statements were drafted.

## **POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS**

No events/transactions were recorded during the year that ended 31 December 2015 that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. As specified in this Communication "atypical and/or unusual transactions mean those transactions which by virtue of their significance/size, nature of the counterparties, purpose of the transaction, method of determining the transfer price and timing (proximity to year end) may give rise to doubts concerning: the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of company assets, and the protection of minority shareholders".

## **SEGMENT INFORMATION**

The application of IFRS 8 – Operating segments became compulsory on 1 January 2009. The 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.



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 related disclosures required by paragraphs 32-33 of IFRS 8 have been provided in the Directors' report on operations.

## 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	36	26	62
<b>Total revenues</b>	<b>36</b>	<b>26</b>	<b>62</b>

**Revenues for services** mainly refer to consulting fees paid to Finpanaria S.p.A. and Immobiliare Gemma for administrative and organisational services.

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,449	5,449
Commission for guarantees received	24	3	27
<b>Total costs</b>	<b>24</b>	<b>5,449</b>	<b>5,476</b>

**Rental expense** refers to the rents paid for all of the buildings used for Panariagroup Industrie Ceramiche S.p.A. production and logistics activities.

**Commissions** are a consideration for the guarantees received, which are described in the "due to banks over the medium/long-term".

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	0.03%	7.08%	0.56%
Costs	3.00%	623.51%	49.17%

\* before changes in working capital

## **BALANCE SHEET**

(in thousands of euro)

	<b>Finpanaria</b>	<b>Imm. Gemma</b>	<b>Total</b>
Receivables	39	32	71
Payables	-	-	-
Due from (to) tax authorities	1,792	-	1,792
<b>Net receivable (payable)</b>	<b>1,831</b>	<b>32</b>	<b>1,863</b>

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.

Other related parties of the company are also:

**Gres Panaria Portugal S.A**

**Panariagroup USA Inc.,**

**Lea North America LLC.**

**Florida Tile Inc.**

**Montanari Ceramiche S.r.l.**

**Panariagroup Immobiliare S.r.l.**

For transactions between the Company and its subsidiaries, refer to the section "Transaction with subsidiaries" reported in the Directors' report.

## **ATTACHMENTS**

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

- Statement of assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws
- Statement of changes in intangible assets from 1 January 2014 to 31 December 2015
- Statement of changes in property, plant and equipment from 1 January 2014 to 31 December 2015
- Statement of changes in financial assets
- Statement of changes in financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations
- Certification of the financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Finale Emilia, 18 March 2016

The Chairman of the Board of Directors

**EMILIO MUSSINI**

## ***EXPLANATORY NOTES - ATTACHMENT 1***

- Statement of assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws

**Statement of assets held for which revaluations were made in accordance with specific laws**  
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment	Other Assets	TOTAL
Various types of revaluation	Revaluation	Revaluation	Revaluation	Revaluation	Revaluation
Law 576 of December 2, 1975	-	-	-	-	-
Law 72 of March 19, 1983	-	601	36	31	668
Law 408 of December 29, 1990	-	-	-	-	-
Law 413 of December 30, 1991	-	-	-	-	-
Law 342 of November 21, 2000	-	4,900	-	345	5,245
<b>Ending Balance</b>	-	<b>5,501</b>	<b>36</b>	<b>376</b>	<b>5,913</b>

**As of December 31, 2015 revaluations made in previous years have been fully depreciated**

## ***EXPLANATORY NOTES - ATTACHMENT 2***

- Statement of changes in intangible assets from 1 January 2014 to 31 December 2015

**Statement of changes in intangible assets from 1 January 2014 to 31 December 2015**  
(in thousands of Euro)

	Start-up costs and costs of expansion	Research and Advertising capitalized	Patents and intellectual property	Concessions, licenses and trademarks	Other intangible assets	Intangible assets in progress	TOTAL
<b>Balance at 1 January 2014</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>647</b>	<b>0</b>	<b>0</b>	<b>647</b>
Increases	-	-	-	455	-		455
Reclassifications	-	-	-	-	-		0
Decreases	-	-	-	-	-		0
Ammortisation	-	-	-	(356)	-		(356)
<b>Balance at 31 December 2014</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>746</b>	<b>0</b>	<b>0</b>	<b>746</b>
Increases	-	-	-	345	-	1,134	1,479
Reclassifications	-	-	-	-	-	100	100
Decreases	-	-	-	-	-	-	0
Ammortisation	-	-	-	(330)	-	-	(330)
<b>Balance at 31 December 2015</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>761</b>	<b>0</b>	<b>1,234</b>	<b>1,995</b>

## ***EXPLANATORY NOTES - ATTACHMENT 3***

- Statement of changes in property, plant and equipment from 1 January 2014 to 31 December 2015



**Statement of changes in tangible assets from 1 January 2014 to 31 December 2015**  
(valori in migliaia di Euro)

	Land and buildings	Plant and Machinery	Extraordinary maintenance to third party assets	Equipment and other Assets	Construction in progress and advances	TOTAL
<b>Balance at 1 January 2014</b>	<b>722</b>	<b>31,617</b>	<b>4,359</b>	<b>1,886</b>	<b>1,188</b>	<b>39,772</b>
Increases		6,239	652	885	146	7,922
Ammortisation	(23)	(7,599)	(1,206)	(832)		(9,660)
Decreases		(12)				(12)
Reclassifications			1,188		(1,188)	-
<b>Balance at 31 December 2014</b>	<b>699</b>	<b>30,245</b>	<b>4,993</b>	<b>1,939</b>	<b>146</b>	<b>38,022</b>
Increases		7,676	756	776	6,649	15,857
Ammortisation	(23)	(7,508)	(1,075)	(811)		(9,417)
Decreases		(399)		(7)		(406)
Reclassifications		46			(146)	(100)
<b>Balance at 31 December 2015</b>	<b>676</b>	<b>30,060</b>	<b>4,674</b>	<b>1,897</b>	<b>6,649</b>	<b>43,956</b>

## ***EXPLANATORY NOTES - ATTACHMENT 4***

- Statement of changes in financial assets from 1 January 2014 to 31 December 2015

**Statement of changes in financial assets from 1 January 2014 to 31 December 2015**  
(in thousand of Euro)

	Investments in subsidiaries	Investments in affiliated companies	Investments in parent companies	Investments in other companies	TOTAL
<b>Balance at 1 January 2014</b>	<b>89,862</b>	<b>-</b>	<b>-</b>	<b>357</b>	<b>90,219</b>
Increases					-
In share capital				101	101
Write-down of investments				(101)	(101)
Revaluation of Investments					-
Other					-
<b>Balance at 31 December 2014</b>	<b>89,862</b>	<b>-</b>	<b>-</b>	<b>357</b>	<b>90,219</b>
Increases					-
In share capital				-	-
Write-down of investments				(172)	(172)
Revaluation of Investments					-
Other					-
<b>Balance at 31 December 2015</b>	<b>89,862</b>	<b>-</b>	<b>-</b>	<b>185</b>	<b>90,047</b>

## ***EXPLANATORY NOTES - ATTACHMENT 5***

- 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**

### **FINANCIAL STATEMENT**

#### **NET FINANCIAL POSITION**

(THOUSANDS OF EURO)

	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>A</b> Cash	(6)	(10)
<b>B</b> Other Cash and cash equivalents	(5,469)	(1,010)
<b>C</b> Securities held for sale	0	0
<b>D</b> Liquidità (A+B+C)	<b>(5,475)</b>	<b>(1,020)</b>
<b>E</b> Short-term financial assets	<b>0</b>	<b>0</b>
<b>F</b> Due to banks	10,650	11,501
<b>G</b> Current portion of long-term loans	20,095	24,894
<b>H</b> Other short-term financial debt	0	0
<b>I</b> Short-term financial indebtedness (F+G+H)	<b>30,745</b>	<b>36,395</b>
<b>J</b> Net short-term financial indebtedness	<b>25,270</b>	<b>35,375</b>
<b>K</b> Long-term financial assets	<b>0</b>	<b>0</b>
<b>L</b> Non-current portion of long-term loans	44,555	32,726
<b>M</b> Due to bondholders	0	0
<b>N</b> Other long-term financial debt	0	0
<b>O</b> Long-term financial indebtedness (L+M+N)	<b>44,555</b>	<b>32,726</b>
<b>P</b> Net long-term financial indebtedness (O-K)	<b>44,555</b>	<b>32,726</b>
<b>Net financial indebtedness (J+P)</b>	<b>69,825</b>	<b>68,101</b>
<b>D+F</b> Net short-term financial indebtedness	<b>5,175</b>	<b>10,481</b>

## ***EXPLANATORY NOTES - ATTACHMENT 6***

- Directors and Officers

### Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
Giuliano Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giovanna Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
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
Sonia Bonfiglioli	Director	Independent non-executive
Roberto Tunioli	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 2016 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 Committee

Name
Enrico Palandri
Sonia Bonfiglioli
Paolo Onofri

### Internal Control Committee

Name
Paolo Onofri
Enrico Palandri
Sonia Bonfiglioli

### Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

### Independent Auditors

Reconta Ernst & Young S.p.A.
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## ***EXPLANATORY NOTES - ATTACHMENT 7***

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



This table, prepared in accordance with article 149-duodecies of the CONSOB Issuer Regulations, reports the fees earned in 2015 for auditing and other services provided by the independent auditors.

Type of services	Party providing the services	Recipient	Fees earned in 2015
Auditing	Reconta Ernst & Young	Panariagroup S.p.A.	137
Other services	Reconta Ernst & Young	Panariagroup S.p.A.	10
<b>Total</b>			<b>147</b>

## ***EXPLANATORY NOTES - ATTACHMENT 8***

- Certification of the 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 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, Emilio 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 financial statements during the period ended 31 December 2015.

2. No matters of particular importance in this regard arose during the period.

3. We also certify that:

3.1 the 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.

Finale Emilia, 18 March 2016

Managing Directors

Paolo Mussini  
Emilio Mussini  
Giuliano Pini

Financial Reporting Manager

Damiano Quarta

# **PANARIAGROUP**

Financial Statement of the companies extra-UE  
controlled by Panariagroup

# PANARIAGROUP USA

## CONSOLIDATED BALANCE SHEET

(THOUSANDS OF DOLLARS)

<u>ASSETS</u>	<u>31-dec-2015</u>	<u>31-dec-2014</u>
<b>CURRENT ASSETS</b>	<b>73,697</b>	<b>70,947</b>
Inventories	52,718	50,942
Trade Receivables	16,784	15,661
Due from tax authorities	0,255	0,399
Other current assets	2,348	2,240
Cash and cash equivalents	1,592	1,705
<b>NON-CURRENT ASSETS</b>	<b>54,000</b>	<b>46,280</b>
Goodwill	0,000	0,000
Intangible assets	3,493	1,578
Property, plant and equipment	32,986	25,307
Financial assets	10,228	11,074
Deferred tax assets	7,001	7,699
Other non-current assets	0,293	0,622
<b>TOTAL ASSETS</b>	<b>127,697</b>	<b>117,227</b>
 <u>LIABILITIES</u>	 <u>31-dec-2015</u>	 <u>31-dec-2014</u>
<b>CURRENT LIABILITIES</b>	<b>33,555</b>	<b>27,329</b>
Due to banks and other sources of finance	2,908	3,664
Trade payables	27,744	20,570
Due to tax authorities	0,491	0,714
Other current liabilities	2,412	2,381
<b>NON-CURRENT LIABILITIES</b>	<b>34,002</b>	<b>37,276</b>
Employee severance indemnities	-	-
Deferred tax liabilities	4,559	1,975
Provisions for risks and charges	0,115	0,050
Due to banks and other sources of finance	25,448	34,374
Other non-current liabilities	3,880	0,877
<b>TOTAL LIABILITIES</b>	<b>67,557</b>	<b>64,605</b>
 <b>EQUITY</b>	 <b>60,140</b>	 <b>52,622</b>
Share capital	63,020	63,020
Capital Reserves	(10,853)	(15,407)
Net Profit	7,973	5,009
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>127,697</b>	<b>117,227</b>

# PANARIAGROUP USA

## CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31-dec-2015		31-dec-2014	
<b>REVENUES FROM SALES AND SERVICES</b>	<b>145,961</b>	<b>94,7%</b>	<b>132,295</b>	<b>95,0%</b>
Change in inventories of finished products	3,413	2,2%	2,698	1,9%
Other revenues	4,820	3,1%	4,242	3,0%
<b>VALUE OF PRODUCTION</b>	<b>154,194</b>	<b>100,0%</b>	<b>139,235</b>	<b>100,0%</b>
Raw materials	(62,805)	-40,7%	(57,741)	-41,5%
Services, leases and rentals	(40,354)	-26,2%	(38,807)	-27,9%
Personnel costs	(30,577)	-19,8%	(26,126)	-18,8%
Other operating expenses	(1,956)	-1,3%	(1,746)	-1,3%
<b>PRODUCTION COSTS</b>	<b>(135,692)</b>	<b>-88,0%</b>	<b>(124,420)</b>	<b>-89,4%</b>
<b>GROSS OPERATING PROFIT</b>	<b>18,502</b>	<b>12,0%</b>	<b>14,815</b>	<b>10,6%</b>
Amortisation and depreciation	(5,009)	-3,2%	(4,911)	-3,5%
Provisions and writedowns	(0,503)	-0,3%	(0,197)	-0,1%
<b>NET OPERATING PROFIT</b>	<b>12,990</b>	<b>8,4%</b>	<b>9,707</b>	<b>7,0%</b>
Financial income (expense)	(1,062)	-0,7%	(1,350)	-1,0%
<b>PRE-TAX PROFIT</b>	<b>11,928</b>	<b>7,7%</b>	<b>8,357</b>	<b>6,0%</b>
Income taxes	(3,955)	-2,6%	(3,348)	-2,4%
<b>NET PROFIT</b>	<b>7,973</b>	<b>5,2%</b>	<b>5,009</b>	<b>3,6%</b>