



CONSOLIDATED ANNUAL REPORT 2016 - DRAFT

Table of Contents:

- INDEPENDENT AUDITORS' REPORT
- DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
- CONSOLIDATED FINANCIAL STATEMENTS
- EXPLANATORY NOTES
- ATTACHMENTS

Panariagroup Industrie Ceramiche
INDEPENDENT AUDITORS' REPORT

Panariagroup Industrie Ceramiche S.p.A.

Consolidated financial statements as at 31 December 2016

**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 consolidated financial statements

We have audited the accompanying consolidated financial statements of Panariagroup Group, which comprise the statement of financial position as at 31 December 2016, and the income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated 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 consolidated financial statements

The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of these consolidated 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 consolidated 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 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of Panariagroup Group as at 31 December 2016, 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 Director's Report and of specific information of the Annual Report on Corporate Governance and the Company's Ownership Structure with the consolidated 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 Director's 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 consolidated financial statements. The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of the Director's 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 Director's Report and the specific information of the Annual Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of Panariagroup Group as at 31 December 2016.

Bologna, 31 March 2017

EY S.p.A.

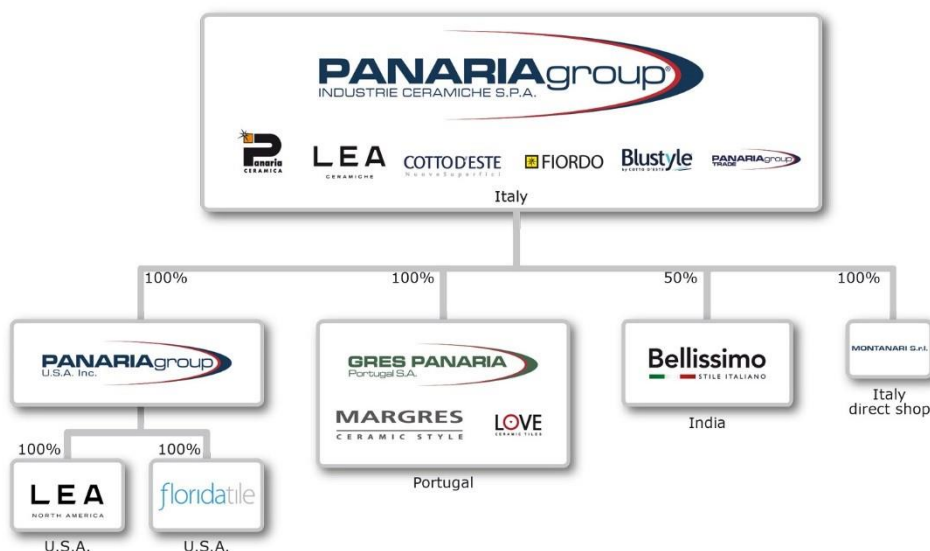
Signed by: Gianluca Focaccia, partner

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

Panariagroup Industrie Ceramiche
DIRECTORS' REPORT
ON THE CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR 2016

STRUCTURE OF THE GROUP

The structure of the Group as at 31 December 2016 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 both 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 Finale Emilia (Italy), share capital of Euro 48,000.00, wholly owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

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
Paolo Mussini	Managing Director
Giuliano Pini	Managing Director
Silvia Mussini	Director
Sonia Bonfiglioli	Independent Director
Paolo Onofri	Independent Director
Enrico Palandri	Independent Director
Roberto Tunioli	Independent Director

Board of Statutory Auditors

Name	Office
Sergio Marchese	Chairman of the Board of Statutory Auditors
Piergiovanni Ascari	Standing Auditor
Francesca Muserra	Standing Auditor

Independent Auditors

EY S.p.A.

Panariagroup is an Italian multinational leader in innovation and beauty.

OUR MISSION

We specialise in the manufacturing and sale of ceramic tiles to promote beauty and innovation.

- Our team generates sustainable value for shareholders, employees and business partners, in compliance with the company's corporate environment.
- Our focus is on research and innovation to serve the beauty and quality of our products.
- Our goal is to meet our private and professional clients' high expectations of wellness and aesthetics, in both buildings and architecture.

OUR VALUES

TECHNOLOGICAL LEADERSHIP

We constantly invest in research, technologies and state-of-the-art facilities to meet every architectural and interior design need with innovative solutions, capable of becoming the industry benchmark.

AESTHETIC QUALITY AND EXCELLENCE

We tenaciously pursue industrial excellence, from quality raw materials to process efficiency, to obtain products that combine absolute aesthetic value with the highest level of technical performance.

RESPONSIBILITY

We always place people and quality of life at the centre of our attention, with safe, environmentally-sustainable products and by operating with the utmost respect for those who work with us.

RELIABILITY

The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

Panariagroup is a leading manufacturer of ceramics tiles for floors and walls. It has 1,600 employees, 9,000 customers, 6 manufacturing plants (3 in Italy, 2 in Portugal and 1 in the United States) and a presence, through its broad and extensive sales network, in over 100 countries worldwide.

Specialising in the production of porcelain tiles and laminate, the Group is positioned in the premium and luxury market through its nine brand names: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, which are capable of satisfying a diversified customer based that is attentive to the technical and aesthetic quality of its products.

Directors' Report on the 2016 Consolidated Financial Statements

Results and significant events in 2016

Dear Shareholders,

Over the year 2016, the global economy continued to grow, but at a pace of development that is not homogenous in the various areas.

In Europe, expansion, slowed by weak international demand, continued to stabilise at a limited pace. The major European economies were similarly affected by the attenuation of the expansion phase, with weaker domestic consumption and sluggish investment; GDP growth slowed in Germany, contracted in France and stagnated in Italy, while economic activity in the United Kingdom, despite the outcome of the June referendum on Brexit, accelerated, thanks to the good performance of domestic demand.

In the United States of America, GDP increased (+3.5%) and continued to accelerate thanks to a robust growth in domestic consumption.

The economic situation in the emerging countries improved: growth in China remained stable (+6.7%), continuing to benefit from the credit expansion and from increased infrastructure spending. In India, GDP growth remained strong (+7%) and the recession in both Brazil and Russia had eased.

During 2016, prices, in the presence of an excess supply, fluctuated between \$40 and \$50 per barrel; the announcement of the reaching of an agreement by OPEC on production cuts partially revitalised prices, which were reported at around \$50 per barrel in the final quarter of 2016; futures contracts point towards a slight increase in prices in 2017.

Monetary policies remained expansionary in developed countries, being most prudent in China and India, whilst in Brazil and Russia, in a context of high inflation, the monetary authorities maintained a restrictive stance.

As of the second half of 2016, conditions in the European financial markets gradually improved and tensions caused by the outcome of the British referendum had eased.

During 2016, the construction industry maintained a relatively satisfactory rate of growth in the main countries in which the Group is present, with the exception of Italy and Russia, where, on the other hand, the weakness of the industry resulted in a slight attenuation.

Segment framework: the performance of Italian competitors

In 2016, the Italian ceramics industry consolidated the upward trend which commenced in 2015, with a growth in sales on foreign markets of around 6% and 4% on the domestic market. In the EU Member Countries, an overall growth was reported of around 8%, in which it is worth noting the recovery of the French market (the second market in order of importance after the German market) which, after a contraction in 2015, grew by over 5% in 2016.

The decline in the Russian market continued, albeit to a lesser extent than the previous year, seeing a reduction in turnover of 13%.

The US market recorded growth of +7% and the Asian markets recorded growth of +8%; finally, record growth of around 5% was recorded for Oceania and Africa.

Group Results

In this context, in tendential growth, our Group has fully benefitted from its international implication with excellent growth in turnover and profitability.

Results for 2016 can be summarised as follows:

- Net revenues for consolidated sales amounted to €377.0 million (€342.9 in 2015), with a growth of 10.0% compared with 2015.
- Gross operating profit amounted to €40.8 million (€30.8 million in 2015, with an increase of 32.6%).
- Net operating profit amounted to €19.1 million (€11.1 million in 2015, with an increase of 71.8%).
- Consolidated net profit amounted to €11.2 million (€5.9 million in 2015, with an increase of 91.2%).

2016 was a very positive year for the Group for several reasons.

The turnover achieved is a historic record for Panariagroup, rising it above pre-crisis levels (a peak was reached in 2007, with a turnover of €354.4 million), but with a more balanced geographical distribution than in the past, with greater control over all major global markets in the ceramics sector.

All Business Units achieved improved results, both in terms of revenue and margins, resulting in the achievement of a more than satisfactory consolidated economic result.

This improvement resulted in an increase in revenues of €34.1 million, an increase in gross operating profit of €10.0 million and a growth in Net Income of €5.3 million.

Even all the main consolidated financial statement indices reported a significant improvement; we specifically highlight the ratio between Net Financial Position and EBITDA, which currently stood at 2.1 and the ratio between Net Working Capital and Revenues from Sales, which stood at 32%.

It is also noted that all major reorganisation activities that ultimately affected, above all, the Italian Business Unit, reached an advanced level of implementation, generating early results, in terms of both profit and turnover.

Results of operations

As in the previous year, our Group, on a whole, achieved a percentage growth in sales which was higher than the average of Italian competitors. Our international structure allows us to be more competitive with respect to companies that are based in the Italian territory only.

As reported above, the three Business Units achieved positive economic performance which had improvement compared with 2015.

The Italian Business Unit increased its turnover by around 9%, achieving a better result overall than the performance of domestic competitors.

The growth was mainly driven by the excellent results obtained in the European markets (+19%), Asia (+18%) and Oceania (+19%).

The increase in demand led to a higher degree of use of production facilities over the previous year, resulting in significant economic benefits on the product unit cost; this is added to a reduction in energy prices, which further contributed to making production costs more competitive.

The Portuguese Business Unit confirmed its excellent results of the last two years, showing a growth of 19% and further consolidating its leadership role in the Portuguese ceramics industry.

An increase in turnover was recorded in all major markets; we stress, with particular satisfaction, the excellent results (+19%) achieved in a domestic market with static growth, as characterised by the Portuguese market, but we find, in general, a success of commercial initiatives, which in recent years has led to a greater control over the foreign markets.

As highlighted by the Italian Business Unit, the fall in energy prices, combined with the growth in production volumes, generated a reduction in unit production costs.

In a dynamic US market (+7%), the American Business Unit increased its market shares, leading to an increase in Revenues of 9%.

The key player in the positive growth was Florida Tile, which is confirmed as a key market player, thanks to its diversified multiple channel distribution model and enjoys a widespread presence over the US territory.

In terms of corporate profitability, good economic results were also confirmed, in line with the good performance of recent years.

Significant events in the period

In 2016, Panariagroup implemented a number of major initiatives in all business areas, which will also have medium- and long-term impacts, with interventions in the industrial, commercial, logistics and organisational areas.

In terms of the industrial business area, all production plants were subjected to technological updates, while the most significant operations concerned the plants of Fiorano Modenese (Italy), Ilhavo (Portugal) and Lawrenceburg (USA).

The plant in Fiorano Modenese, started manufacturing operations in the third line of Stoneware Laminate; to the two previously installed systems, a new one was added, which is more modern and has a greater production capacity and which will produce significant advantages in terms of overall efficiency and productivity.

Furthermore, in order to broaden the finishing of the Stoneware Laminate products, a new line was launched for polishing slabs.

The new structure of the plants enables us to fully meet the new market trends which are witnessing a major development on Stoneware Laminate products with polished surfaces and those with textured surfaces.

At the plant in Ilhavo, Portugal, it was decided to upgrade the processing department of finished products by installing a new polishing line; in this case, the installed technology enables us to produce polished products in large formats, which are currently very popular and greatly expanding.

The complete saturation of the plant in Lawrenceburg required, in 2016, the installation of an entirely new production line, which is added to the two already existing lines.

The plant became necessary by virtue of the prospects for further growth of the US market, which is still confirmed, and the development programmes of the US Business Unit; the production of the new line commenced at the beginning of the last quarter of 2016.

Again, in terms of the US plant, in support of the objectives of increased turnover and with a view to improving the logistics and customer service efficiency, significant extension works were carried out on the buildings dedicated to the rationalisation of storage and shipping areas of the “National Distribution Center”, which became operational in February 2017.

Following the acquisition, in 2006, the US plant was subjected to a full renovation of the plant, achieving the current set-up that is in line with the highest technological standards, making it one of the most modern plants in the production of ceramics in the US.

In the Italian Business Unit, activities aimed at the reorganisation of trade networks, the implementation of new distribution channels and the repositioning of the brand continued and are expected to be completed in 2017.

The path taken has already led to major changes, generating the first significantly positive effects and we expect these interventions to substantially improve the organisation in all its aspects in 2017.

We recall that, in 2015, the integration project of the information systems for all Group Business Units was started through the adoption of a single platform (SAP). In 2016, the implementation of the US Business Unit (Florida Tile, Panariagroup USA and Lea North America) continued, culminating in the launch of the new software in January 2017.

The development programme now provides for a gradual extension of the Portuguese and Italian Business Units, to be completed in the two-year period 2017-2018.

The project falls within the internationalisation strategy of Panariagroup. The implementation of the IT systems will allow us to improve all the main processes in line with the best practices, and will ensure a uniform management of all Group companies,

both in Italy and abroad, by simplifying interactions between the various Business Units and promoting any future expansion projects for external lines.

Review of the Group's 2016 Results

Income statement as at 31 December 2016 compared with 31 December 2015

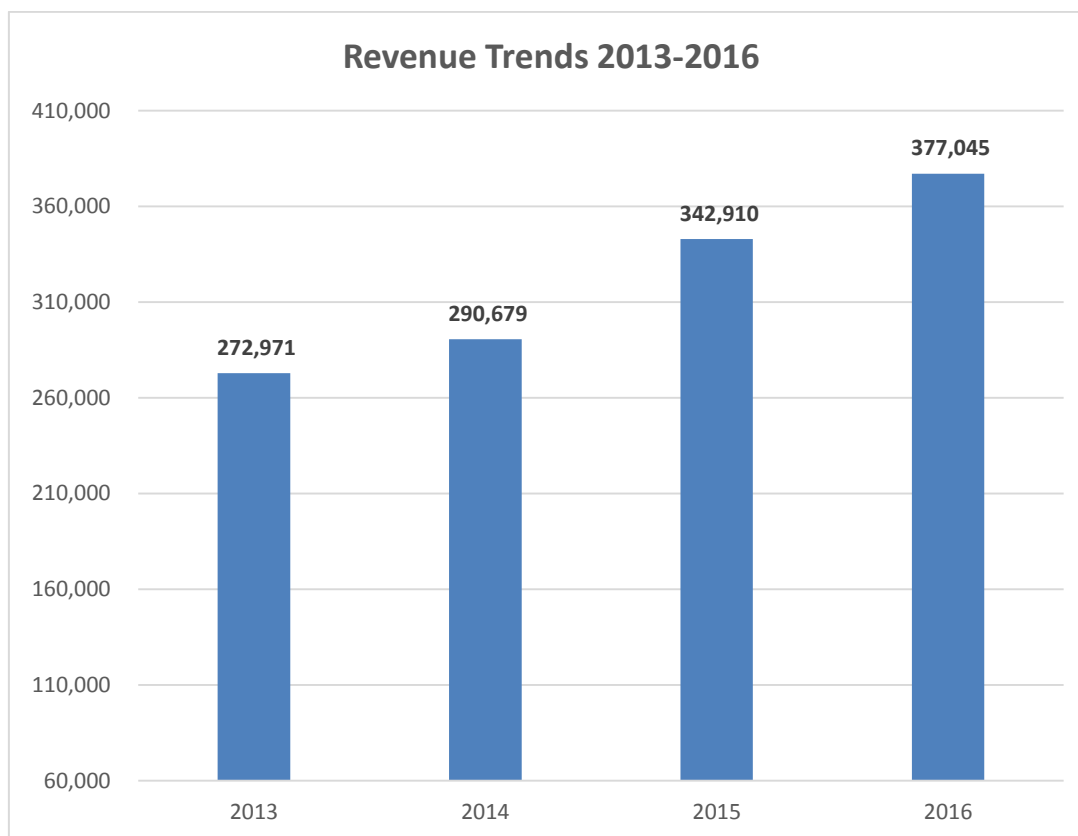
(in thousands of Euro)

	31-Dec-2016	%	31-Dec-2015	%	var.	var. %
Revenues from sales and services	377,045	96.32%	342,910	95.45%	34,135	9.95%
Change in inventories of finished products	1,016	0.26%	5,201	1.45%	(4,185)	-80.47%
Other revenues	13,379	3.42%	11,137	3.10%	2,242	20.13%
Value of Production	391,440	100.00%	359,248	100.00%	32,192	8.96%
Raw, ancillary and consumable materials	(109,484)	-27.97%	(103,570)	-28.83%	(5,914)	5.71%
Services, leases and rentals	(145,859)	-37.26%	(136,548)	-38.01%	(9,311)	6.82%
Personnel costs	(91,999)	-23.50%	(84,689)	-23.57%	(7,310)	8.63%
Changes in inventories of raw materials	(3,270)	-0.84%	(3,644)	-1.01%	374	-10.26%
Cost of production	(350,612)	-89.57%	(328,451)	-91.43%	(22,161)	6.75%
Gross operating profit	40,828	10.43%	30,797	8.57%	10,031	32.57%
D&A expenses	(19,360)	-4.95%	(17,453)	-4.86%	(1,907)	10.93%
Provisions and other impairments	(2,402)	-0.61%	(2,247)	-0.63%	(155)	6.90%
Net operating profit	19,066	4.87%	11,097	3.09%	7,969	71.81%
Financial income and expense	(2,543)	-0.65%	(1,846)	-0.51%	(697)	37.76%
Pre-tax profit	16,523	4.22%	9,251	2.58%	7,272	78.61%
Income taxes	(5,308)	-1.36%	(3,386)	-0.94%	(1,922)	56.77%
Net profit (loss) for the period	11,215	2.86%	5,865	1.63%	5,350	91.21%

Consolidated revenues

Revenues from sales recorded a **10.0%** overall increase, from €342.9 million in 2015 to €377.0 million in 2016 (+€34.1 million).

Below is the trend from 2013 to 2016, which reveals a truly significant progression; it is specifically noted that in the last three years the Group's turnover has grown, only for internal lines, by over €100 million.



Principal markets

2016 was characterised by a positive trend in all of the major markets in which the Group was present.

In the **United States**, growth in turnover and market share continued, with an increase in sales of 9%; in this area, the Group has demonstrated considerable continuity of results for

over 5 years. The presence in the US of a structured company such as Florida Tile, which is capable of occupying the market through its diversified distribution channels (Own Shops, Independent Distributors, Home Centers), enables the Group to benefit from a competitive base on which to build its commercial development strategies, creating synergies even with the two commercial divisions, Panaria USA and Lea North America. The impact of the US market on total sales is equal to 37% (38% in 2015).

The **European markets** recorded truly excellent performance with an overall growth of 20%; the achievement of this result is attributable to both Business Units focused on these markets (Italian and Portuguese) and the effectiveness of their commercial action.

In all major areas excellent results were achieved, but the sales achieved in Portugal specifically stand out (with a further strengthening of the leadership of Gres Panaria Portugal), in Germany, Austria, Great Britain, Holland and Belgium.

The significant increase in market share obtained, leads to suggest that the choices and activities carried out in recent years, aimed at improving control over these areas, are been aimed in the right direction.

The European market share represents 34% of total sales (impact of 31% in 2015).

The performance of our Group on the **Italian market** slightly up and substantially in line with the overall market trend.

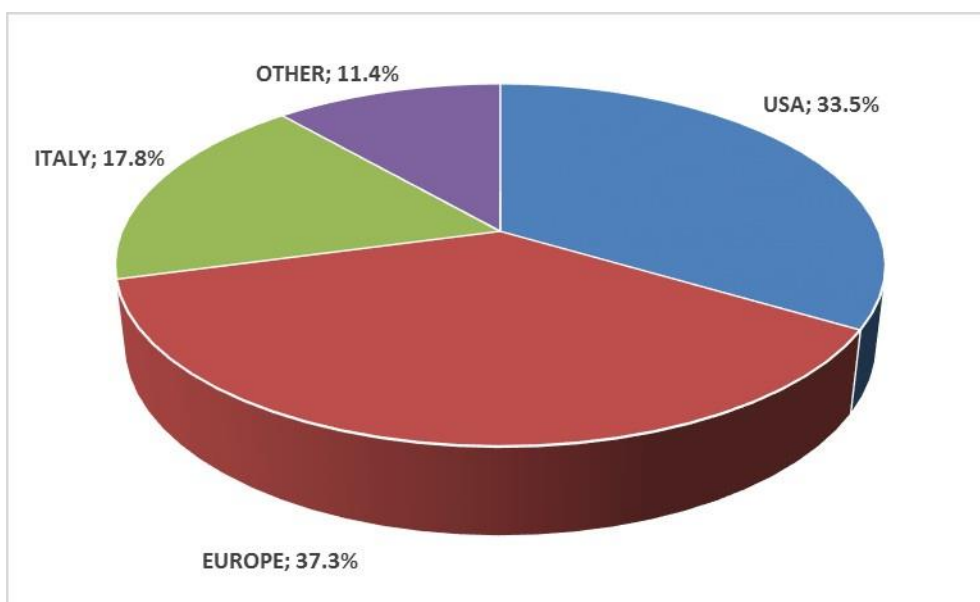
With respect to the market uncertainties of recent years, we also found moderate signs of optimism on the future prospects for the domestic market.

The Italian market share represents 18% of total sales (19% in 2015).

In the “**Other markets**” (**Asia, Canada, South America, Oceania and Africa**), the Group achieved good growth of 7%; while in the Central American and South American markets we recorded a slowdown overall, we record excellent growth in Oceania (+19%) and on the more than promising Asian markets (+18%).

The “other markets” share represents 11% of total sales (12% in 2015).

Panariagroup confirms, also in 2016, its identity as a strong international Group, with a turnover of 82% on the foreign markets, over half of which outside of Europe.



Performance of the Group's Business Unit

The **Italian Business Unit** confirmed the positive turn demonstrated the previous year, with a net increase in sales (+9%), giving more significant support, in absolute terms, to the Group's growth in turnover.

In a context of positive results for all Italian Divisions, the contribution of the multi-Brand Panariagroup Trade organisation, operating on the Asian markets, as well as markets in Oceania and Western Europe and of the Private Label Division (Third-Party) stands out.

The development plan for the coming years, the role of the Italian organisation remains a key pillar and, therefore, we welcome the achievement of the significant results with satisfaction, as the result of a substantial effort made in recent years to redesign the commercial strategies and align them with the market needs.

The **Portuguese Business Unit** (+19%), is fully complying with its ambitious growth plans which were formulated 3 years ago when, at a time of temporary slowdown, it started to build the bases and strategies for a commercial relaunch and to enhance its strengths. We therefore believe there is still room for further development and the search for new products and channels to fuel growth is maintained.

The **US Business Unit** confirmed, once again, good growth (+9%), a result that it has repeated for several years, which almost seems taken for granted, but which, given the dimensions and complexity achieved by the company, is anything but simple.

Florida Tile specifically has become, after over 10 years since its acquisition by Panariagroup, a key player in the US ceramics sector, with an increasingly strong logistics and production base in the territory, thanks to continuous investments in production capacity and technological innovation and with a distribution organisation developed on several channels for a better and efficient control over the markets.

Operating results

Gross operating profit came to €40.8 million, representing 10.4% of the value of production (€30.8 million, 8.6%, in 2015), with an increase of €10.0 million.

The improvement in operating margins was mainly attributable to the growth in sales volumes and to the significant reduction in production costs.

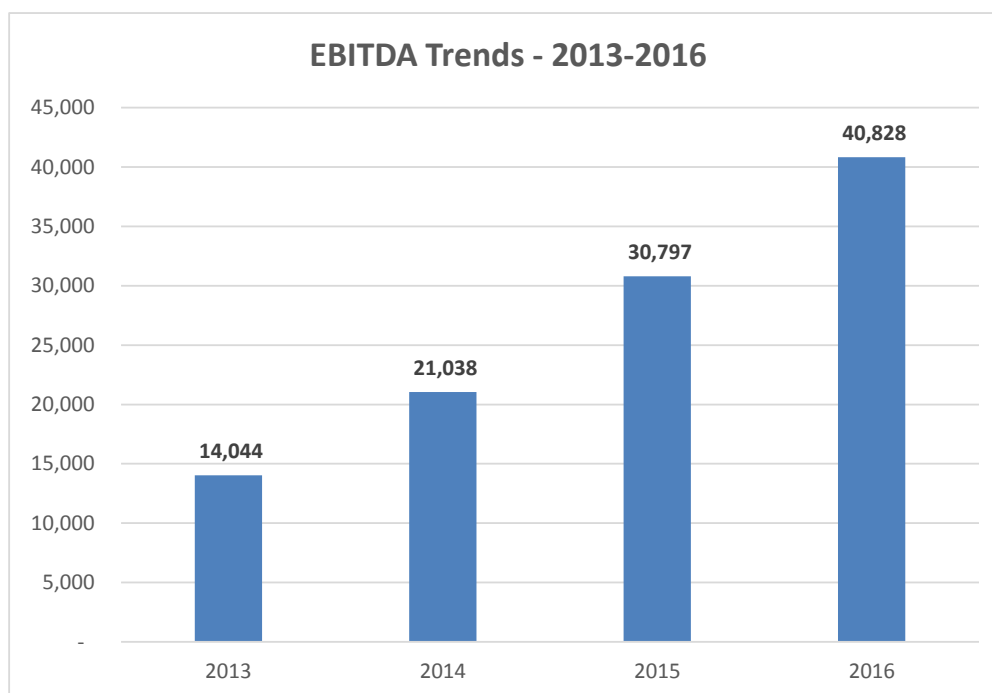
The increase in sales was caused by the gain in market shares in terms of volumes, while prices were in line with the previous year.

Production costs significantly benefitted from greater production volumes and the achievement of a high degree of saturation of plants, resulting in a reduced impact of the fixed production costs component on the unit cost.

In addition, the European plants benefitted from a reduction in energy prices, which is one of the production factors of greatest weighting on the production cost for our sector, which is not coincidentally known as “energivorous”.

Although in an expansive phase, an adequate control was maintained over structuring costs which, having grown to a lesser extent overall than the Production Value, caused a decline in their incidence, with a positive impact on gross operating profit.

The improvement in Gross operating profit confirmed the excellent progression that started in 2014:



The net operating profit amounted to a positive €19.1 million (€11.1 million in 2015), with an improvement of €8.0 million.

Amortisation increased by €1.9 million, compared with 2015, due to significant investments made in the last two years, without changing their impact on the value of production, less than 5%.

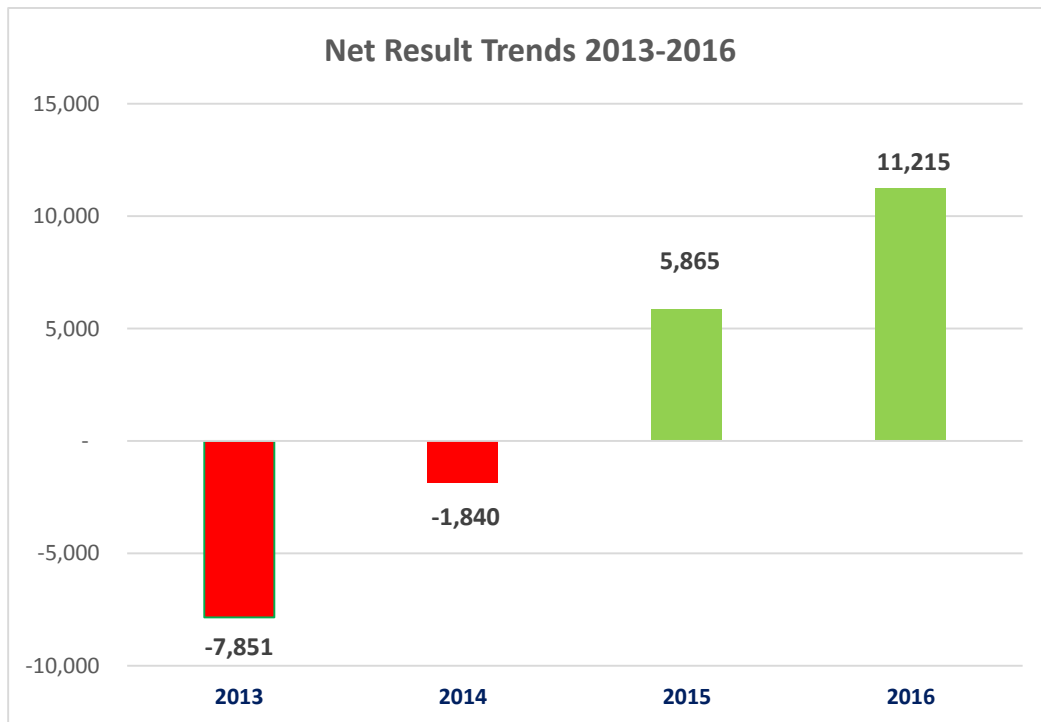
Financial expenses amounted to €2.5 million, with a reduced impact with respect to the Production Value (0.7%); in 2016, we benefitted from favourable market conditions in interest rates, added to a careful treasury management.

The increase in financial expenses compared with 2015 is mainly due to the Euro/Dollar exchange dynamics, which generated more profits on exchange rates in the previous year.

The pre-tax results amounted to €16.5 million (€9.2 million in 2015), with an improvement of €7.3 million.

Net consolidated profit was equal to €11.2 million (€5.9 million in 2015).

The graph below clearly shows how Panariagroup managed, from its negative result in 2013, to progressively bring itself up to the satisfactory economic result of 2016.



Review of the balance sheet

Financial position

(in thousands of Euro)

CONSOLIDATED FINANCIAL STATEMENT - BALANCE SHEET

(Amount in Thousands Euro)

	31-Dec-2016	31-Dec-2015
Inventories	140,173	138,208
Accounts Receivable	79,903	78,031
Other current assets	13,657	11,075
CURRENT ASSETS	233,733	227,314
Account Payables	(83,647)	(76,037)
Other current liabilities	(28,097)	(25,429)
CURRENT LIABILITIES	(111,744)	(101,466)
NET WORKING CAPITAL	121,989	125,848
Goodwill	8,139	8,139
Intangible assets	13,967	5,593
Tangible assets	119,595	109,115
Equity Investments and other financial assets	82	189
FIXED ASSETS	141,783	123,036
Receivables due after following year	777	802
Provision for termination benefits	(5,913)	(5,837)
Provision for risk and charge	(4,725)	(4,333)
Deferred tax assets	5,405	10,699
Other payables due after the year	(3,386)	(7,968)
ASSET AND LIABILITIES DUE AFTER THE YEAR	(7,842)	(6,637)
NET CAPITAL EMPLOYED	255,930	242,247

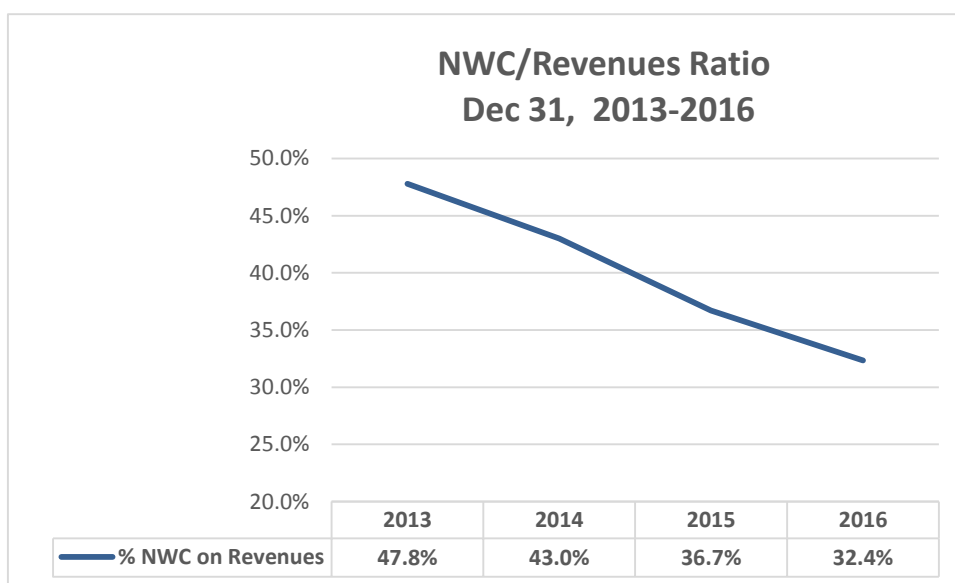
Short term financial assets	(16,995)	(7,500)
Short term financial debt	36,505	36,372
NET SHORT TERM FINANCIAL DEBT	19,510	28,872
Mid-Long term financial debt	64,202	54,119
NET FINANCIAL POSITION	83,712	82,991
Group Shareholder's Equity	172,218	159,256
SHAREHOLDERS' EQUITY	172,218	159,256
TOTAL SOURCES OF FUNDS	255,930	242,247

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

Despite the presence of a marked growth in turnover, a decrease was recorded in Net Working Capital of over €3,9 million compared to 31 December 2015

The NWC/Sales ratio, one of the indicator-guidelines for our management, improved consistently, from 36.7% to 32.4% last year; observing the trend over a longer period (2013-2017), we note that this indicator went from 47,8% to 32.4%, a reduction in incidence of 20 percentage points.



More in detail, analysing the positions of the CCN, a slight growth can be seen in inventories (1%), which, compared with the growth in revenues (+10%), leads to a marked improvement in the turnover ratio for stocks.

In addition, the performance of trade receivables (+2.5%) was less than the growth in income, causing a marked reduction in “average collection times”.

The increase in payables due to suppliers (+10%) compared with the expected performance, is in line with the increase in business volumes

We believe that the current level of Net Working Capital, standing at just below 30%, results in an excellent target in our reference sector, partly in consideration of the specific placement of our Group in the high-end product range, which must ensure warehouse availability in rapid times to our customers.

We therefore continue to operate to ensure the improvement, where possible, of this major asset index.

Non-current assets

Non-current assets, both property, plant and equipment and intangible assets, increased by €18.9 million in 2016.

The increase was due to the following factors:

- net investments, amounting to €37.5 million, carried out by the Italian Business Unit for €13.1 million, the Portuguese B.U. for €5.2 million and the US Business Unit for €19.2 million.
- the greater value of the fixed assets of the US sub-consolidations expressed in Euro, because of the appreciation of the dollar since the end of 2015, totalling €0.8 million.
- depreciation and amortisation for the period of €19.4 million.

The most significant investments made were previously reported in the section “Significant Events”.

Panariagroup, by maintaining and strengthening its positioning as a leader in the high-end and luxury range, dedicates major resources to technological innovation, necessary to offer its customers state-of-the-art products, with technical and aesthetic contents in line with the most advanced qualitative standards in environmental protection.

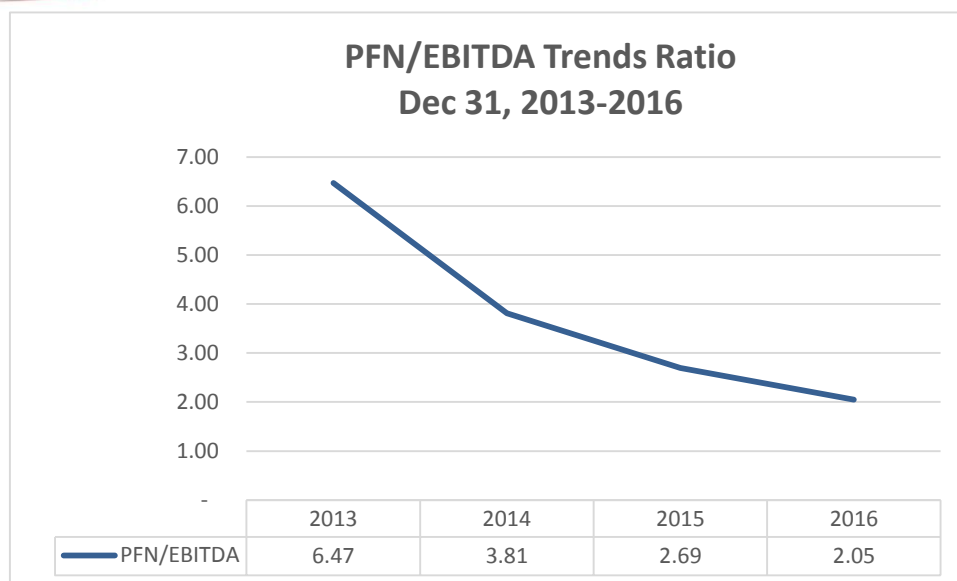
Net financial position

Financial cash flow
(thousands euro)

	31-Dec-2016	31-Dec-2015
Net financial position (debt) - beginning	(83.0)	(80.2)
Net Result for the period	11.2	5.9
D & A	19.4	17.4
Net Variation Provisions	6.9	4.3
Non monetary changes	(0.1)	0.0
Internal operating Cash flow	37.3	27.7
Change in net working capital and other assets and liabilities	(1.2)	7.9
Net Investments	(36.7)	(37.4)
Exchange rate diff. from US\$ financial statement conversions	(0.1)	(1.0)
Net financial position (debt) - final	(83.7)	(83.0)

Compared to 2015, Net Financial Indebtedness increased by €0.7 million, albeit, with a clearly positive evolution of the Net Financial Position/Gross Operating Margin ratio, from 2,7 to 2.1; this result is to be considered extremely positive, in view of the relevant level of investments performed and was made possible due to the excellent contribution of its self-financing.

The graph below shows the performance of this ratio in the last five years; after the negative peak in 2013, a progressive and significant improvement commenced that led to the current optimal levels.



It is also worth noting that in 2016 the Group entered in a medium/long-term loan €37.5 million, at favourable interest rates. After this operation, on 31 December 2016, the impact of medium/long-term on the total financial debt, amount to 76%.

The improvement of NFP/GOM ratio and the financial balance is expected also for next year, and it represents one of the primary targets in management.

Equity

Equity increased from €159.3 million in 2015 to €172.2 million in 2016, mainly thanks to the positive economic result for 2016.

Segment information

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

The previous standard, IAS 14 – Sector reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits of the segments themselves; the reporting system solely served as the starting point for this identification.

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

The disclosures required by paragraphs 32-33 of IFRS 8 are shown below. In particular:

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

CONSOLIDATED FINANCIAL STATEMENT

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

ASSETS	Italy	Europe	USA	Other	31-Dec-2016
CURRENT ASSETS	121,234	45,833	72,962	11,984	252,013
Inventories	72,383	21,283	46,507	0	140,173
Trade Receivables	29,634	19,774	18,511	11,984	79,903
Due from tax authorities	4,825	1,469	1,726	0	8,020
Other current assets	4,369	318	2,235	0	6,922
Cash and cash equivalents	10,023	2,989	3,983	0	16,995
NON-CURRENT ASSETS	57,607	45,350	76,712	70	179,739
Goodwill	350	7,789	0	0	8,139
Intangible assets	5,155	508	8,304	0	13,967
Property, plant and equipment	43,177	36,195	40,223	0	119,595
Financial assets	(1)	3	22,795	70	22,867
Deferred tax assets	8,570	855	4,969	0	14,394
Other non-current assets	356	0	421	0	777
TOTAL ASSETS	178,841	91,183	149,674	12,054	431,752
	Italy	Europe	USA	Other	TOT
Net investments in tangible assets 2016	13,008	5,181	19,180	0	37,369

Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2016.

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 2016, and in particular those presented at the now regular event of CERSAIE 2016 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 2016 financial statements.

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

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

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net results with the corresponding consolidated amounts reported at 31 December 2016 (in thousands of Euro):

	31-Dec-2016		31-Dec-2015	
	Equity	Net Income (Loss)	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent Company)	145,621	3,339	142,813	(1,103)
Difference between the book value of equity investments and their value using the equity method	27,263	10,041	17,071	10,365
Elimination of unrealised gains arising on the intercompany transfer of inventories	(1,232)	(42)	(1,190)	(738)
Reversal of exchange losses (gains) on intercompany loan	0	(147)	0	(958)
Alignment to Group depreciation's rates	87	(22)	108	(21)
Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	442	26	417	300
Elimination of unrealised gains arising from dividend distribution	0	(1,980)	0	(1,980)
Others	37	0	37	0
Net effect of consolidation adjustments	26,597	7,876	16,443	6,968
As per consolidated financial statements	172,218	11,215	159,256	5,865

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 28 April 2016, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2016:

<i>No. of shares</i>	<i>Average book value</i>	<i>Amount</i>
432,234	3.7347	1,614,285

The number of treasury shares in portfolio is the same as at 31 December 2015, as no purchases or sales were made during 2016.

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2016; 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 2016 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

Significant subsequent events

No significant events have taken place in the period subsequent to the end of December 2016.

Outlook for Group operations

The excellent results achieved in 2016, in continuity with the strong growing performance of the two previous years, confirm the appropriate strategic decisions made in recent years and the efficacy of the profound renovation procedures the Group implemented in all of its Business Units and in all business areas.

The expectations for 2017 are positive, in terms of both business volumes and profitability.

In terms of Revenues, the outlook is of further growth in all Business Units, thanks to the expected effects of the commercial development programmes implemented and to a complex macro-economic framework in tendential improvement.

Specifically, we are seeing a particularly positive contribution by the Italian Business Unit, for which the positive impacts resulting from the profound revision of the commercial model should be consistently consolidated.

As regards production costs, significant benefits are expected.

Firstly, the 2017 Budget provides for a more intense use of the plants, leading the European plants to near-production capacity saturation levels and a consequent reduction in the incidence of fixed costs.

Secondly, the implementation of major industrial investments made in the last two years will enable us to benefit from major advantages in terms of efficiency and productivity.

Finally, based on the agreements signed for 2017, we are expecting a further reduction in cost for the supply of gas and electricity.

We conclude, with 2016, a positive three-year cycle, which has led to a growth in Revenues for the Group of over €100 million, an improvement of economic results and on strengthening its financial position.

Panariagroup's current structure, characterised by a very solid economic and financial base, its industrial and state-of-the-art competitiveness and by its well-defined and balanced strategic and geographical positioning, places in us an excellent situation to be able to develop, in 2017, a new and ambitious growth plan.

Report on Corporate Governance and the Ownership Structure

In compliance with the disclosure requirements of Borsa Italiana Spa and Consob, Panariagroup Industrie Ceramiche S.p.A. has prepared the "Report on Corporate Governance and the Ownership Structure", which can be consulted on its website www.panariagroup.com in the section entitled Company Documents (as required by art. 123-bis of Law Decree 58 of 24 February 1998).

Risk management

In compliance with all reporting requirements for listed companies, the Law 262/2005 has amended the Issuer Regulations by introducing a requirement for the Directors of such companies to identify, assess and manage risks relating to the Company's activities. The main types of risk that have been identified are as follows:

GENERAL ECONOMIC RISK

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

RISK OF DEPENDENCE ON KEY PERSONNEL

The Group's performance depends, among other things, on the competence and skills of its managers, as well as the ability to ensure continuity in the running of operations. Since several of the principal managers of Panariagroup are shareholders in Panariagroup Industrie Ceramiche S.p.A. - through Finpanaria S.p.A., which holds approximately 70% of the share capital - it is reasonable to assume that the possibility of the Group's principal

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

MARKET RISK

Competition risk:

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

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2015 and 2016. Therefore, their increase, which is not currently expected, could have a negative impact on the financial results of the Group in the short term.

Brexit risk:

The result of the Brexit referendum could have impact also on ceramic consumption on the UK market and on the flow of ceramic material import.

We highlight that Panariagroup made sales in 2016 for 4.9 millions Eur (equal to about 1.3% of the total Sales), then eventual changes, even significant, on our sales in this area should not have relevant economic and financial impact for the Group.

Environmental protection, personnel costs and regulations relating to the sector

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

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

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

The average workforce in 2016 was equal to 1,656 individuals, a decrease of 66 employees compared with the average number in 2015.

Adhesion to the simplification regime, as per Art. 70 and 71 of the Issuers Regulation

Panariagroup Industrie Ceramiche S.p.A., adhered to the opt-out regime envisaged by the Consob Issuers regulation, availing itself of the faculty to be exempt from obligations to publish disclosure documents as set out on the occasion of significant mergers, demergers, acquisitions and sales, as well as capital increases through assets in kind.

Pursuant to provisions set forth in the regulation above, the Company provided for the supply of adequate disclosures.

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, 2016							
Name and Last Name	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2016	Number of shares sold in 2016	Number of shares held at 31 December 2016	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	318,921	99,118	25,000	393,039	Direct	Property
		4,400			4,400	Spouse	Property
Pini Giuliano	Panariagroup	80,302	17,500		97,802	Direct	Property
		7,880			7,880	Spouse	Property
Mussini Emilio	Panariagroup	129,436			129,436	Direct	Property
		13,080			13,080	Spouse	Property
Mussini Paolo	Panariagroup	1,000			1,000	Direct	Property
Mussini Silvia	Panariagroup	21,900			21,900	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
Marchese Sergio	Panariagroup	-			-	Direct	Property
Total		576,919	116,618	25,000	668,537		

Warnings

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

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Group adopted the IFRS standards issued by the International Accounting Standards Board officially approved by the European Union. The accounting policies and financial statement formats used in preparing these financial statements do not differ from those applied in the financial statements for the year ended 31 December 2015, with the exception of those international accounting standards which entered into effect as at 01 January 2016 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as at 01 January 2016"; refer to this section for more information. The application of these standards did not produce any significant effects.

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

- As at 31 December 2016 three of the companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc. and Lea North America LLC.
- Adequate procedures have been adopted to ensure thorough compliance with the new rules (art. 36 of Market Regulations issued by Consob).

Performance measures

Explanatory notes and directors' report, include some performance indicators in order to present a better evaluation of financial and economic performance of the Group.

As regards those indicators, on December 3, 2015, CONSOB issued Communication no. 92543/15, which gives force to the Guidelines issued on October 5, 2015, by the European Securities and Markets Authority (ESMA) concerning the presentation of alternative performance measures in regulated information disclosed or prospectuses published as from July 3, 2016. These Guidelines, which update the previous CESR Recommendation (CESR/05-178b), are intended to promote the usefulness and transparency of alternative performance indicators included in regulated information or prospectuses within the scope of application of Directive 2003/71/EC in order to improve their comparability, reliability and comprehensibility.

Accordingly, in line with the regulations cited above, the criteria used to construct these indicators are as follows:

- 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.
- Net Working capital: this is made up of the inventory, account receivable, other current assets, net of account payables and other current liabilities.
- Net Financial Position: this is made up of cash and financial credit, net of bank short and medium-long terms financial debts and leasing.

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as at 31 December 2016
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as at 31 December 2015
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

Sassuolo, 17 March 2017

The Chairman
Mussini Emilio


Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
Figures at 31 December 2016

STATEMENT OF FINANCIAL POSITION - IFRS			RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
ASSETS	31-Dec-2016	RIF		31-Dec-2016	RIF
CURRENT ASSETS	252,013		Inventories	140,173	A
Inventories	140,173	A	Trade Receivable	79,903	B
Trade Receivables	79,903	B	Other current assets	13,657	C+D-(*)
Due from tax authorities	8,020	C	CURRENT ASSETS	233,733	
Other current assets	6,922	D	Trade Payables	(83,647)	N
Cash and cash equivalents	16,995	E	Other current liabilities	(28,097)	O + P
NON-CURRENT ASSETS	179,739		CURRENT LIABILITIES	(111,744)	
Goodwill	8,139	F	NET WORKING CAPITAL	121,989	
Intangible assets	13,967	G	Goodwill	8,139	F
Property, plant and equipment	119,595	H	Intangible assets	13,967	G
Financial assets	22,867	I	Property, plant and equipment	119,595	H
Deferred tax assets	14,394	J	Equity Investments and other financial assets	82	I - (**)
Other non-current assets	777	L	FIXED ASSETS	141,783	
TOTAL ASSETS	431,752		Receivables due beyond 12 months	777	L
LIABILITIES AND EQUITY	31-Dec-2016		Employee severance indemnities	(5,913)	Q
CURRENT LIABILITIES	149,534		Provision for risk and charge	(4,725)	S
Due to banks and other sources of finance	37,790	M	Provision for deferred taxes	5,405	J+R
Trade payables	83,647	N	Other liabilities due beyond 12 months	(3,386)	U
Due to tax authorities	3,320	O	ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	(7,842)	
Other current liabilities	24,777	P	NET CAPITAL EMPLOYED	255,930	
NON-CURRENT LIABILITIES	110,000		Short term financial assets	(16,995)	E
Employee severance indemnities	5,913	Q	Short term financial indebtedness	36,505	M - (*)
Deferred tax liabilities	8,989	R	NET SHORT TERM FINANCIAL INDEBTEDNESS	19,510	
Provisions for risks and charges	4,725	S	Mid-Long term financial debt	64,202	T - (**)
Due to banks and other sources of finance	86,987	T	NET MID-LONG TERM FINANCIAL INDEBTEDNESS	64,202	
Other non-current liabilities	3,386	U	NET FINANCIAL POSITION	83,712	
TOTAL LIABILITIES	259,534		Group Shareholders' Equity	172,218	V+W+X
EQUITY	172,218		SHAREHOLDERS' EQUITY	172,218	
Share capital	22,678	V	TOTAL SOURCES OF FUNDS	255,930	
Reserves	138,325	W			
Net profit (loss) for the year	11,215	X			
TOTAL LIABILITIES AND EQUITY	431,752				

(*) CURRENT PORTION OF IRB 1,285
Classified under current assets in the IFRS statement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB 22,785
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
Figures at 31 December 2015

STATEMENT OF FINANCIAL POSITION - IFRS		
ASSETS	31-Dec-2015	RIF
CURRENT ASSETS	235,592	
Inventories	138,208	A
Trade Receivables	78,031	B
Due from tax authorities	5,332	C
Other current assets	6,521	D
Cash and cash equivalents	7,500	E
NON-CURRENT ASSETS	151,719	
Goodwill	8,139	F
Intangible assets	5,593	G
Property, plant and equipment	109,115	H
Financial assets	9,519	I
Deferred tax assets	18,551	J
Other non-current assets	802	L
TOTAL ASSETS	387,311	
LIABILITIES AND EQUITY	31-Dec-2015	
CURRENT LIABILITIES	138,616	
Due to banks and other sources of finance	37,150	M
Trade payables	76,037	N
Due to tax authorities	3,000	O
Other current liabilities	22,429	P
NON-CURRENT LIABILITIES	89,439	
Employee severance indemnities	5,837	Q
Deferred tax liabilities	7,852	R
Provisions for risks and charges	4,333	S
Due to banks and other sources of finance	63,449	T
Other non-current liabilities	7,968	U
TOTAL LIABILITIES	228,055	
EQUITY	159,256	
Share capital	22,678	V
Reserves	130,713	W
Net profit (loss) for the year	5,865	X
TOTAL LIABILITIES AND EQUITY	387,311	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
	31-Dec-2015	RIF
Inventories	138,208	A
Trade Receivable	78,031	B
Other current assets	11,075	C+D-(*)
CURRENT ASSETS	227,314	
Trade Payables	(76,037)	N
Other current liabilities	(25,429)	O + P
CURRENT LIABILITIES	(101,466)	
NET WORKING CAPITAL	125,848	
Goodwill	8,139	F
Intangible assets	5,593	G
Property, plant and equipment	109,115	H
Equity Investments and other financial assets	189	I - (**)
FIXED ASSETS	123,036	
Receivables due beyond 12 months	802	L
Employee severance indemnities	(5,837)	Q
Provision for risk and charge	(4,333)	S
Provision for deferred taxes	10,699	J+R
Other liabilities due beyond 12 months	(7,968)	U
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	(6,637)	
NET CAPITAL EMPLOYED	242,247	
Short term financial assets	(7,500)	E
Short term financial indebtedness	36,372	M - (*)
NET SHORT TERM FINANCIAL INDEBTEDNESS	28,872	
Mid-Long term financial debt	54,119	T - (**)
NET MID-LONG TERM FINANCIAL INDEBTEDNESS	54,119	
NET FINANCIAL POSITION	82,991	
Group Shareholders' Equity	159,256	V+W+X
SHAREHOLDERS' EQUITY	159,256	
TOTAL SOURCES OF FUNDS	242,247	

(*) CURRENT PORTION OF IRB 778
Classified under current assets in the IFRS statement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB 9,330
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

RECONCILIATION BETWEEN THE SUMMARY OF CASH FLOWS AND THE IFRS-FORMAT CASH FLOW STATEMENT

Note:

The summary of cash flows presented in the Directors' Report measures the change in total net financial indebtedness, while the IFRS-format cash flow statement measures the change in Cash and cash equivalents.

PANARIAGROUP CONSOLIDATED FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	31-Dec-2016
	Short-term securities (1,285)
A	Cash and cash equivalents (16,995)
	Short-term financial assets (18,280)
	Long-term securities (22,785)
	Long-term financial assets (22,785)
B	Due to banks 14,154
	Current portion of long-term loans 22,085
	Leases 1,551
	Short-term financial indebtedness 37,790
	Non-current portion of long-term loans 63,785
	Leases 23,202
	Long-term financial indebtedness 86,987
B	Net financial indebtedness 83,712
A	Cash and cash equivalents (16,995) (X)
	(as reported in IFRS cash flow statement)
B	Total net financial position 83,712 (Z)
	(as reported in summary of cash flow contained in the Director's Report)

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

(Thousands of Euro))

31-Dec-2016

A - OPERATIONS

Net Results of the period	11,215	A
Depreciation and amortisation	19,360	B
Losses (gains) on assets disposal	110	Y
Deferred tax liabilities (assets)	5,197	C
Non-monetary change in provisions for employee severance indemnities	498	I
Net change in provisions	1,174	D
Tax effect on elimination of intercompany exchange rates	(47)	E
Revaluation and writedown of equity investments	316	Q

Cash flow (absorption) from operations prior to changes in working capital	37,823
--	--------

(Increase)/(decrease) in trade receivables	(1,339)
(Increase)/(decrease) in inventories	(1,203)
(Increase)/(decrease) in trade payables	5,860
Employee severance indemnities disbursement	(422)
Net change in other assets/liabilities	(4,109)

Cash flow (absorption) from operations due to changes in working capital	(1,213)	F
--	---------	----------

Total (A) Cash flow from operations	36,610
--	---------------

B - INVESTMENT ACTIVITY

Investment in tangible and intangible assets	(37,149)	H
Investment in financials assets	(208)	J
Sales of tangible fixed assets	611	K

Total (B) Cash Flow (absorption) from investment activities	(36,746)
--	-----------------

C - FINANCING ACTIVITY

Non-monetary changes recorded in equity	(522)	P
Other changes in equity	-	G
(Purchase) Sale of treasury shares	-	M
Net change in financial payables (excluding the new non-current loans received)	(76)	
New Loans	39,530	
Loan repayments	(29,238)	

Total (C) Cash Flow (absorption) from financing activities	9,694
---	--------------

Cash and cash equivalents at beginning of the period	7,500	
Change in the translation reserve	(63)	N
Net change in Cash and cash equivalents (A + B + C)	9,558	
Cash and cash equivalents at end of period	16,995	(X)

Financial cash flow

(thousands euro)

31-Dec-2016

Net financial position (debt) - beginning

(82,991)

Net Result for the period	11,215	A
D & A	19,360	B
Net Variation Provisions	6,869	C+D+I
Non monetary changes	(143)	E+G+P+Q+Y
Internal operating Cash flow	37,301	
Change in net working capital and other assets and liabilities	(1,213)	F
Net Investments	(36,746)	H + J + K
Exchange rate diff. from US\$ financial statement conversions	(63)	N
Net financial position (debt) - final	(83,712)	(Z)

For a better understanding of the exchange rate effect on Cash and equivalents, a cash flow presentation method has been used; in this format, the changes in the individual components of equity are "net" of the exchange rate effect which is incorporated in full in the item "change in the translation reserve". This item represents the actual impact of the change in exchange rates on the Group's Net Financial Position.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAGROUP

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(THOUSANDS OF EURO)

<i>rif</i>	<u>ASSETS</u>	31-Dec-2016	31-Dec-2015
	CURRENT ASSETS	252,013	235,592
1.a	Inventories	140,173	138,208
1.b	Trade Receivables	79,903	78,031
1.c	Due from tax authorities	8,020	5,332
1.d	Other current assets	6,922	6,521
1.e	Cash and cash equivalents	16,995	7,500
	NON-CURRENT ASSETS	179,739	151,719
2.a	Goodwill	8,139	8,139
2.b	Intangible assets	13,967	5,593
2.c	Property, plant and equipment	119,595	109,115
2.d	Financial assets	22,867	9,519
2.e	Deffered tax assets	14,394	18,551
2.f	Other non-current assets	777	802
	TOTAL ASSETS	431,752	387,311
	LIABILITIES	31-Dec-2016	31-Dec-2015
	CURRENT LIABILITIES	149,534	138,616
3.a	Due to banks and other sources of finance	37,790	37,150
3.b	Trade payables	83,647	76,037
3.c	Due to tax authorities	3,320	3,000
3.d	Other current liabilities	24,777	22,429
	NON-CURRENT LIABILITIES	110,000	89,439
4.a	Employee severance indemnities	5,913	5,837
4.b.	Deferred tax liabilities	8,989	7,852
4.c	Provisions for risks and charges	4,725	4,333
4.d	Due to banks and other sources of finance	86,987	63,449
4.e	Other non-current liabilities	3,386	7,968
	TOTAL LIABILITIES	259,534	228,055
5	EQUITY	172,218	159,256
	Share capital	22,678	22,678
	Reserves	138,325	130,713
	Net profit for the year	11,215	5,865
	TOTAL LIABILITIES AND EQUITY	431,752	387,311

PANARIAGROUP

CONSOLIDATED INCOME STATEMENTS - IFRS

(THOUSANDS OF EURO)

<i>rif</i>		31-Dec-2016		31-Dec-2015	
6.a	REVENUES FROM SALES AND SERVICES	377,045	96.3%	342,910	95.5%
	Change in inventories of finished products	1,016	0.3%	5,201	1.4%
6.b	Other revenues	13,379	3.4%	11,137	3.1%
	VALUE OF PRODUCTION	391,440	100.0%	359,248	100.0%
7.a	Raw materials	(109,484)	-28.0%	(103,570)	-28.8%
7.b	Services, leases and rentals	(145,859)	-37.3%	(136,548)	-38.0%
	<i>of which, related party transactions</i>	(5,449)	-1.4%	(5,449)	-1.5%
7.c	Personell costs	(91,999)	-23.5%	(84,689)	-23.6%
7.d	Other operating expenses	(3,270)	-0.8%	(3,644)	-1.0%
	PRODUCTION COSTS	(350,612)	-89.6%	(328,451)	-91.4%
	GROSS OPERATING PROFIT	40,828	10.4%	30,797	8.6%
8.a	Amortisation and depreciation	(19,360)	-4.9%	(17,453)	-4.9%
8.b	Provisions and writedowns	(2,402)	-0.6%	(2,247)	-0.6%
	NET OPERATING PROFIT	19,066	4.9%	11,097	3.1%
9.a	Financial income (expense)	(2,543)	-0.6%	(1,846)	-0.5%
	PRE-TAX PROFIT	16,523	4.2%	9,251	2.6%
10.a	Income taxes	(5,308)	-1.4%	(3,386)	-0.9%
	NET PROFIT	11,215	2.9%	5,865	1.6%
	BASIC AND DILUTED EARNING PER SHARE	0.247		0.129	

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31-Dec-2016	31-Dec-2015
NET PROFIT (LOSS) FOR THE PERIOD	11,215	5,865
Other components of comprehensive income that will be reclassified later to after-tax profit	2,020	6,036
Exchange rate differences from foreign operations	2,310	6,036
Profit (loss) on interest rate hedging transactions accounted in accordance with the <i>Cash Flow Hedge</i> method	(290)	0
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	(287)	236
(loss) Net Profit from revaluation of defined benefits and plans	(282)	258
Other	(5)	(22)
COMPREHENSIVE INCOME FOR THE PERIOD	12,948	12,137

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

	December, 31	
(in thousands of Euro)	2016	2015
A - OPERATIONS		
Net Results of the period	11,215	5,865
Depreciation and amortisation	19,360	17,445
Losses (gains) on fixed assets disposals	110	(99)
Deferred tax liabilities (assets)	5,197	3,967
Non-monetary change in provisions for employee severance indemnities	498	(240)
Net change in provisions	1,174	1,077
Tax effect on elimination of intercompany exchange rates	(47)	(346)
Revaluation and write downs of participation	316	168
<i>Cash flow (absorption) from operations prior to changes in working capital</i>	<i>37,823</i>	<i>27,837</i>
(Increase)/decrease in trade receivables	(1,339)	(7,048)
(Increase)/decrease in inventories	(1,203)	(4,147)
Increase/(decrease) in trade payables	5,860	15,329
Employee severance indemnity disbursement	(422)	(498)
Net change in other assets/liabilities	(4,109)	3,772
<i>Cash flow (absorption) from operations due to changes in working capital</i>	<i>(1,213)</i>	<i>7,408</i>
Total (A) Cash flow from operations	36,610	35,245
B - INVESTMENT ACTIVITY		
Investment in tangible assets	(28,579)	(34,174)
Investment in intangible assets	(8,571)	(3,808)
Investment in financial assets	(208)	-
Sales of tangible fixed assets	611	696
Total (B) Cash Flow/absorption) from investment activities	(36,746)	(37,286)
C - FINANCING ACTIVITY		
Non-monetary changes recorded in equity	(522)	228
Net change in financial payables (excluding the new non-current loans received)	(76)	1,490
New loans	39,530	30,000
Loan repayments	(29,238)	(24,131)
Total (C) Cash Flow (absorption) from financing activities	9,694	7,587
Cash and cash equivalents at beginning of the period	7,500	2,932
Change in the translation reserve	(63)	(977)
Net change in Cash and cash equivalents (A + B + C)	9,558	5,545
Cash and cash equivalents at end of period	16,995	7,500
Supplementary information:		
Interest paid	977	1,145
Income taxes paid	2,201	742

(*) For a better understanding of the exchange rate effect on the Net Financial Position, a cash flow presentation method has been used; in this format, the changes in the individual components of equity are "net" of the exchange rate effect which is incorporated in full in the item "change in the translation reserve". This item represents the actual impact of the change in exchange rates on the Group's Net Financial Position.

PANARIAGROUP

Statement of changes in consolidated equity from 1 January 2015 to 31 December 2016

	Share Capital	Share premium reserve	Revaluation reserve	Legal reserve	Other reserves	Translation reserve	Retained earnings	Net profit (loss) attributable to the Group	Total equity
(THOUSANDS OF EURO)									
Balance as of 1 January 2015	22,678	60,783	4,493	3,958	50,801	2,545	3,702	(1,841)	147,119
<i>Net result for the period</i>								5,865	5,865
<i>Other comprehensive profit (loss)</i>					228	6,044			6,272
Total gains (losses) booked directly to equity					228	6,044		5,865	12,137
<i>Allocation of net profit for year 2014</i>					(1,841)			1,841	
Balance as of 31 December 2015	22,678	60,783	4,493	3,958	49,188	8,589	3,702	5,865	159,256
Balance as of 1 January 2016	22,678	60,783	4,493	3,958	49,188	8,589	3,702	5,865	159,256
<i>Net result for the period</i>								11,215	11,215
<i>Other comprehensive profit (loss)</i>					(536)	2,269			1,733
Total gains (losses) booked directly to equity					(536)	2,269		11,215	12,948
<i>Other</i>					14				14
<i>Allocation of net profit for year 2015</i>					5,865			(5,865)	
Balance as of 31 December 2016	22,678	60,783	4,493	3,958	54,531	10,858	3,702	11,215	172,218

PANARIAGROUP

EXPLANATORY NOTES

INTRODUCTION

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

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

The consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the provisions issued in implementation of article 9 of 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 policies and reporting formats used for preparing these consolidated financial statements do not differ from those applied since adopting IFRS, with the exception of the newly introduced standards and the amendments indicated below in these explanatory notes.

The currency used to draw up the consolidated financial statements for the period 1 January – 31 December 2016 is the Euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled “Accounting Principles”.

The consolidated financial statements include:

- the consolidated balance sheet as at 31 December 2016 compared with the consolidated balance sheet as at 31 December 2015. 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 in the balance sheet.

- the consolidated income statement for 2016, compared with that for 2015.

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

- Gross Operating Profit: 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 profit: 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 in the income statement.

CONSOB resolution 15519 of 27 July 2006 also requires separate disclosure in the income statement, under costs or revenues, of any significant components of income and/or expense deriving from non-recurring events or transactions or arising from transactions or events that are not repeated frequently in the normal course of business.

- the statement of consolidated comprehensive income for 2016 with comparative figures for the year 2015, presented in accordance with the requirements of IAS 1 revised.
- the consolidated cash flow statement for 2016 and 2015. 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 consolidated equity from 1 January 2015 to 31 December 2016.
- the explanatory notes (with related attachments).

Consolidated and separate financial statements, have been approved by the Board of Directors on 17 March 2017.

1) GENERAL INFORMATION ON THE GROUP

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

The Group's products are sold in more than 60 countries under eight distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo, Blustyle, Margres, Love Tiles and Florida Tile.

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

The other companies included in the scope of consolidation are:

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

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

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

Note that **Panariagroup Immobiliare S.r.l.**, with head office in Finale Emilia, Italy, and share capital of Euro 10,000 paid-in, 100% controlled by Panariagroup Industrie Ceramiche S.p.A., was placed in liquidation in 2016 with subsequent cancellation from the register of companies on 29 December 2016. Therefore this company was no longer included in the scope of consolidation at 31 December 2016.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements for the year ended 31 December 2016 include the financial statements of Panariagroup Industrie Ceramiche S.p.A. and of those companies over which it exercises direct or indirect control, as defined in paragraphs 12 to 17 of IAS 27.

This standard states that control over another enterprise exists when the company has the power to determine its financial and operating policies so that the company can obtain benefits from the other's activity.

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

Subsidiaries consolidated are 100% controlled directly or indirectly and therefore are not present factual control situations or exercised significant judgments.

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

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

According to the provisions of IFRS 3, as at the acquisition date the buyer must recognise, separately from goodwill, the identifiable assets and liabilities acquired and any non-controlling interest in the acquired entity.

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 2016, the Group held a joint venture company (JVC). This equity investment was valued in the consolidated financial statements according to the equity method, using the last set of approved financial statements of the investee company as a reference.

For these equity investments, if joint control should be lost, the difference between (a) the fair value of any share retained and the consideration received for the sale and (b) the book value of the investment on the date control is lost, will be booked to the income statement.

An evaluation will be performed each year to check if the facts and circumstances have changed as such to modify the equal partnership between the parties in the joint venture agreement.

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

Measurement criteria

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 measurement criteria used to prepare the consolidated financial statements for the year ended 31 December 2016 do not differ from those used to draft the consolidated financial statements for the year ended 31 December 2015, with the exception of the accounting standards, amendments and interpretations applicable from 1 January 2016 which did not, however, have an impact on these financial statements.

In particular, the following amendments were made:

- Amendments to IAS 19 on employee benefits: IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Contributions that are linked to service must be attributed to periods of service as a negative benefit. This amendment clarifies that, if the amount of the contributions is independent from the number of years of service, an entity may recognise these contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to service periods.
- Amendments to IFRS 11 – Joint arrangements: amendments regarding the accounting of the acquisition of interests in a joint operation whose activities constitute 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 be applied for these cases.
- Amendments to IAS 16 and to IAS 38: the amendments clarify the principle of IAS 16 - Property, plant and equipment and IAS 38 - Intangible assets, whereby revenues reflect a model of economic benefits generated by management of a business (of which the asset is part), rather than consumption of the economic benefits from use of the asset. The result is that a revenue-based method cannot be used to calculate depreciation for property, plant and equipment and could only be used in extremely limited circumstances for the amortisation of intangible assets.
- Amendments to IAS 27 - Equity method in the separate financial statements: the amendments allow entities to account for investments in subsidiaries, joint ventures and associates using the equity method in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements must apply the change retrospectively. The Group already applied equity method for joint-venture valuation, so no change incurred in the accounting method.
- Amendments to IAS 1: disclosure initiative. With the Disclosure Initiative the IASB clarified the following aspects with reference to presentation of financial statements:
 - the materiality requirement per IAS 1
 - the fact that specific lines in the statement of profit or loss for the year, other comprehensive income or statement of financial position, can be disaggregated

- that the entities are flexible with respect to the order in which they present the explanatory notes
- that the share of other comprehensive income relating to the associates and joint ventures accounted for at equity must be presented in aggregate form on a single line, and classified as items which will not subsequently be reclassified in the income statement.

In addition, the amendments clarify the requirements applied when sub-totals are presented in the statement of profit or loss for the year, in other comprehensive income or in the statement of financial position.

- Amendments to IFRS 14 Regulatory Deferral Accounts: IFRS 14 is an optional standard which allows an entity, whose activities are subject to regulated rates, to continue to apply, on first-time adoption of IFRS, most of the previous accounting standards adopted for amounts relating to rate regulation. Entities that adopt IFRS 14 must present the balances relating to rate regulation in separate lines of the statement of financial position and present movements in these accounts in separate lines of the statement of profit or loss for the year and other comprehensive income. The standard requires information to be provided on the nature, associated risks, the rate regulation and the effects of rate regulation on the entity's financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities: the amendments discuss problems arising from application of the exception relating to investment entities envisaged in IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption to presentation of the consolidated financial statements applies to the parent company which is the subsidiary of an investment entity, when the investment entity measures all its subsidiaries at fair value. In addition, the amendments to IFRS 10 clarify that only one subsidiary of an investment entity, that is not itself an investment entity and which provides support services to the investment entity, can be consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in associates and joint ventures allow the investor, when applying the equity method, to retain the fair value measurement applied to associates or joint ventures of an investment entity in the measurement of its investments in subsidiaries.
- Annual improvements to IFRSs - 2010-2012 Cycle: 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 improvements to IFRSs - 2012-2014 Cycle. These improvements regard: IFRS 5, IFRS 7, IAS 19 and IAS 34.

The amendments listed above will be in effect 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 applicable and not adopted early by the Group 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. This standard is effective for years starting on or after 1 January 2018.

- Amendments 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 amendments will apply from 1 January 2017.
- Amendments to IAS 7 - Cash Flow Statement. On 29 January 2016, the IASB published an amendment to the standard on the “Disclosure initiative” with a view to improving the disclosure on changes in financial liabilities. The amendments will apply from 1 January 2017.
- Annual improvements to IFRSs - 2014-2016 cycle - On 8 December 2016 the IASB issued a number of minor changes to IFRS 1 (First-time adoption of IFRS), IFRS 12 (Disclosure of interests in other entities), IAS 28 (Investments in associates and joint ventures) and IFRIC 22 (Foreign currency transactions and advance consideration). 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 IASB during the project cycle. The main changes include those relating to IFRIC 22, which give guidance on the use of exchange rates in transactions in other currencies that are paid or collected in advance. These amendments will apply from financial years beginning on or after 1 January 2018, except the amendments to IFRS 12 which will enter into force from 1 January 2017.

The Group has begun to carry out an analysis of the potential impact that adoption of the new standards IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases could have on the balance sheet, financial position, income statement and information contained in the Group financial statements and notes.

IFRS 15 was issued in May 2014 and introduces a new five-stage analysis model which will apply to revenue from contracts with customers. IFRS 15 provides for the recognition of revenue for an amount that reflects the consideration to which the entity believes to be entitled in exchange for the transfer of goods or services to the customer.

The new standard will replace all current requirements found in IFRS regarding the recognition of revenues and is effective for annual periods beginning on or after 1 January 2018. The Group expects to apply the new standard from the mandatory effective date.

During 2016 the Group carried out a preliminary assessment of the effects of IFRS 15, which is subject to amendments as a result of a more detailed analysis that is currently underway. The Group is also considering the clarifications issued by the IASB in April 2016 and will assess any further development. In particular, a work plan has been drawn up to quantify the impacts of the new IFRS 15 and to provide information on implementation of the standard in the financial statements prior to the date of first-time application, as suggested by the public statement issued by ESMA on 20 July 2016 entitled "Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers".

IFRS 16 was published in January 2016 and replace IAS 17 “Leasing”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC-15 “Operating leasing – Incentives” and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 defines the policies for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognize all leases on the financial statement on the basis of a single model similar to that used to account for finance leases in accordance with IAS 17. The amendments will apply from 1 January 2019.

Except as indicated above, no significant changes are expected on the separate and consolidated financial statements by the new standards described above

The main accounting policies applied are described below.

Business combinations

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

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

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

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

Goodwill

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

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

Intangible assets

Intangible assets consist of non-monetary elements, without any physical substance, that are clearly identifiable and able to generate future economic benefits. Such elements are booked at purchase or production cost, including directly attributable expenses incurred to permit the asset to be used, net of accumulated amortisation and any impairment losses.

Amortisation begins when the asset is available for use and is charged systematically over its estimated useful life.

Bought-in software licences are capitalised on the basis of the costs incurred for their purchase and to bring them into use. Amortisation is calculated on a straight-line basis over their estimated useful life; in the absence of specific indications, for software this is generally considered to be 5 years.

The costs associated with the development and maintenance of software programs are accounted for as a cost when incurred. The costs directly associated with the production of unique and identifiable software products that are under a consolidated company's control and which will generate future economic benefits over a time horizon of more than one year are accounted for as intangible assets.

Internally generated intangible assets - research and development costs

Research costs are booked to the income statement in the period in which they are incurred.

Internally generated intangible assets that derive from the Group's product development efforts are only capitalised if all of the following conditions are satisfied:

- the asset is identifiable (e.g. software or new processes);
- it is probable that the asset will generate future economic benefits;
- the development costs of the asset can be reliably measured.

Such intangible assets are amortised on a straight-line basis over the estimated useful lives of the related products.

When internally generated assets cannot be capitalised, the development costs are written off to the period in which they are incurred.

Trademarks and patents

Patents and trademarks are initially booked at purchase cost and amortised on a straight-line basis over their estimated useful life.

In the absence of specific indications, for trademarks and patents a useful life of 10 years is considered.

Property, plant and equipment

Property, plant and equipment are booked at historical cost, net of accumulated depreciation and any write-downs due to impairment. Cost includes the best estimate, if significant, of the costs involved in dismantling and removing the asset and the costs involved in reclaiming the site where the asset was located, if these come under the provisions of IAS 37.

Any costs incurred after the purchase are only capitalised if they add to the future economic benefits inherent in the asset to which they refer. All other costs are booked to the income statement when incurred. In particular, ordinary or cyclical repairs and

maintenance costs are booked directly to the income statement in the period they are incurred.

Depreciation is charged on a straight-line basis against the cost of the assets, net of their residual values, over their estimated useful life, applying the following rates (main categories):

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

Impairment losses

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

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

The recoverable value is the higher of the asset's fair value, less costs to sell, and its value in use. To determine the value in use, the estimated future cash flows are discounted to their present value at a rate net of tax that reflects current market assessments of the time value of money and the specific risks of the business in question.

If the recoverable amount of an asset (or of a CGU) is estimated to be lower than its book value, it is written down to the lower recoverable amount. Impairment losses are booked to

the income statement immediately.

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

Leases

Leases are classified as finance leases if the terms of the contract substantially transfer all of the risks and rewards of ownership to the lessee. All other contracts are treated as operating leases.

Assets under finance leases are booked as Group assets at their fair value on the date of stipulation of the contract or at the present value of the minimum lease payments, if this is less. The corresponding liability to the lessor is included in the consolidated balance sheet as a lease liability. The lease instalment payments are split between principal and interest so as to achieve a constant rate of interest on the residual liability.

The lease instalment costs under operating leases are booked on a straight-line basis over the life of the contract. The benefits received or to be received by way of incentive to take out operating leases are also booked on a straight-line basis over the life of the contract.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes direct materials and, where applicable, direct labour costs, production overheads and other costs incurred to bring the inventories to their current location and condition. Cost is calculated on the basis of the weighted average cost method. Net realisable value represents the estimated selling price less the estimated costs of completion and the costs considered necessary to make the sale.

Trade receivables

Trade receivables are shown at face value less an appropriate write-down to reflect estimated losses on receivables. Appropriate write-downs as an estimate of the amounts that are unlikely to be recovered are booked to the income statement when there is objective proof that the receivables have suffered an impairment. Write-downs are measured as the difference between the carrying value of the receivables and the present value of the estimated future cash flows discounted at the effective rate of interest calculated when the receivables are first booked.

Financial assets

Financial assets are booked to and reversed out of the balance sheet on the basis of the date of purchase or sale and are initially valued at fair value, including any charges directly related to the purchase.

At subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold to maturity (“securities held to maturity”) are shown at amortised cost using the effective interest rate method, net of any write-downs for impairment.

Financial assets other than those held to maturity are classified as being held for trading or available for sale, and are measured at fair value at the end of every period. When financial assets are held for trading, the gains and losses deriving from changes in their fair value are charged to the income statement for the period; for financial assets available for sale, gains and losses deriving from changes in their fair value are booked directly to equity until such time that they are sold or have suffered an impairment; at that moment, the overall gains and losses previously booked to equity are transferred to the income statement for the period.

Cash and cash equivalents

This includes cash on hand, bank current and deposit accounts that are repayable on demand and other highly liquid short-term financial investments that can rapidly be converted into cash and which are not subject to a significant risk of changes in value.

Derivatives

The Group's activities are primarily exposed to financial risks arising from changes in exchange rates. In certain cases, the Group uses derivatives to hedge the risks deriving from foreign exchange fluctuations that might affect commitments that are certain and irrevocable, as well as foreseeable future transactions. Even though these derivatives are not held for trading purposes, but solely to cover exchange rate risks, they do not have the characteristics required by IAS 39 to be defined as hedging derivatives.

Derivatives are recorded at fair value; changes in the fair value of derivatives that do not qualify for hedge accounting are booked to the income statement in the period they arise.

Provisions

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

Post-employment benefits

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

For defined-benefit plans, the cost of the benefits provided is calculated by performing actuarial valuations at the end of each financial period. Liabilities for post-employment benefits shown in the balance sheet consist of the present value of the liabilities for defined-benefit plans adjusted to take account of the actuarial gains and losses that have

not yet been recognised and of any past service costs that have not yet been recognised. Any net assets resulting from this calculation are limited to the value of the actuarial losses not yet recognised and to past service costs that have not yet been recognised, plus the net present value of any reimbursements and reductions in future contributions to the plan.

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

Trade payables

Trade payables are booked at their face value.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified on initial recognition among financial liabilities designated at fair value through profit or loss, among mortgages and loans or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value added to which, for mortgages, loans and payables, are the directly attributable transaction costs.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts, guarantees given and derivatives.

Subsequent measurement

The financial liabilities are mainly composed of loans. After initial recognition, if the effects are significant, loans are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liability is settled, in addition to through the amortisation process.

The amortised cost is calculated by recognising the discount or premium on the acquisition and the fees or costs forming an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the statement of profit or loss.

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.

Bank loans

Interest-bearing bank loans and overdrafts are booked on the basis of the amounts received, net of any related costs, and subsequently valued at amortised cost, using the effective interest rate method.

Treasury shares

Treasury shares are deducted directly from equity: gains and losses realised on their disposal are booked directly to the equity reserves.

Revenue recognition

Revenues are recognised to the extent it is probable that the economic benefits are achieved by the Group and the related amount can be reliably determined, regardless of the date of collection. Revenues are measured at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding taxes and duties.

Foreign currency transactions

The financial statements of the individual Group companies are prepared in the currency of the main economic environment in which they operate (functional currency). For consolidation purposes, the financial statements of each foreign entity are expressed in euro, which is the functional currency of the Group and the currency in which the consolidated financial statements are presented. In preparing the financial statements of the individual entities, transactions in currencies other than the euro are initially booked at the exchange rates ruling on the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in such currencies are restated at period-end exchange rates. Non-monetary assets expressed at fair value that are denominated in a foreign currency are translated at the exchange rates ruling on the date on which the fair values were determined. Exchange differences arising on the settlement of monetary items and their re-measurement at period-end exchange rates are booked to the income statement for the period, except for exchange differences on non-monetary assets expressed at fair value, for which changes in fair value are booked directly to equity, like for the exchange element.

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

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

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

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

	31-Dec-16	31-Dec-15
Average exchange rate for the period	1.1069	1.1095
Current exchange rate at the balance sheet date	1.0541	1.0887

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

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

Government grants

Government grants for capital investments are booked to the income statement over the period needed to match them against the related costs, being treated in the meantime as deferred income.

In particular, they are booked when there is reasonable certainty that the company will comply with the requirements for the allocation of funds, and that the grants will be received.

Income taxes

Income taxes for the year are the sum of current and deferred taxes.

Current taxes are based on the taxable result for the year. Taxable income differs from the result shown in the income statement as it excludes positive and negative elements that will be taxed or deducted in other financial years, while it also excludes those items that will never be taxed or deducted for tax purposes. The current tax liability is calculated using the official or effective tax rates ruling at the balance sheet date.

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of the assets and liabilities shown in the financial statements and the corresponding value for tax purposes used in calculating taxable income, accounted for according to the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, whereas deferred tax assets are only recognised to the extent that it is considered probable that there will be sufficient taxable income in the future to absorb them. These assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (not in business combinations) of other assets or liabilities in transactions that do not have any influence either on the accounting result or on the taxable result.

Deferred tax liabilities are recognised on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in those cases where the Group is able to control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and

reduced to the extent that it is no longer probable that there will be sufficient taxable income to allow all or part of such assets to be recovered.

Deferred taxes are calculated on the basis of the tax rate that is expected to be in force at the time that the asset is realised or the liability extinguished.

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

Goodwill – Estimate of the degree of recoverability

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

Inventory valuation and provision for slow-moving and obsolete goods

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

Analysis are targeted to identify the goods that are physiologically sold at a price lower than the cost (second and third choice or obsolete material) and the presence of slow-moving material.

Provision for bad and doubtful accounts

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

Deferred tax assets

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

Contingent liabilities

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

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

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

Related parties

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

Financial risks and derivatives

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

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

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars.

Exchange rate risk mainly arises from the sale of finished products to the US market, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.

In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps.

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

b) Credit risk

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

The Group does not have any significant concentrations of credit risk.

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

c) Interest rate risk

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

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

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

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.

The Group’s objective is to ensure that it can fulfil all of its financial obligations at any moment in time, optimising its recourse to external financing. The Group maintains a certain number of lines of credit (see section 3.a “Due to banks and other sources of finance”) in order to take advantage of unforeseen business opportunities which may arise or for unforeseen payments, in addition to commitments arising from planned capital expenditure.

Liquidity risk is closely monitored on a daily basis in order to plan for and predict liquidity.

See the comments in section 4.d “Due to banks and other sources of finance” for

information regarding the maturities of financial liability contracts.
There are no loan contracts subjected to covenants.

3) OTHER INFORMATION

Presentation of the consolidated financial statements

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

Subsequent events

There are no matters worth mentioning.

4) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. CURRENT ASSETS

1.a. Inventories

As at 31 December 2016, this item is composed of the following:

	31-Dec-16	31-Dec-15
Raw, ancillary and consumable materials	13,231	12,965
Work in progress	2,287	2,215
Finished products	136,834	134,710
Provision for obsolescence	(14,202)	(13,610)
Total finished products and raw materials	138,150	136,280
Buildings held for sale	2,674	2,463
Provision for depreciation: buildings held for sale	(651)	(535)
Total buildings held for sale	2,023	1,928
	140,173	138,208

The overall value of inventories rose (+2 million, 1.4%) compared to 31 December 2015. This improvement, in terms of percentage increase, is however less than the greater volumes produced during the year owing to the Group's commitment to optimising the level of inventory by carefully scheduling production and disposal activities.

Inventories of finished products are shown net of a provision for obsolescence of Euro 14,202 thousand at 31 December 2016, 9.3% of total inventories (Euro 13,610 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.

Inventories include Euro 2,674 thousand of buildings held for sale (mainly apartments received in exchange), net of an impairment charge of Euro 651 thousand, based on the estimates of the market value of the assets at the end of the year drawn up by an independent professional.

1.b. Trade receivables

The item "Trade receivables" is composed of:

	31-Dec-16	31-Dec-15
Trade receivables	85,923	83,965
Provision for bad and doubtful accounts	(6,020)	(5,934)
	79,903	78,031

Gross trade receivables are up by around 2.3% compared to 31 December 2015, with this being proportionally lower than the growth in revenue, which reveals an improvement in "average days of collection".

The item "Trade receivables" includes around Euro 4 million in receivables past due by more than 120 days (equal to roughly 4.5 % of total receivables); the provision for bad and doubtful accounts, amounting to Euro 6 million, reflects an economic estimate of the recoverable value of total receivables, based on the information available at the time of preparing the consolidated financial statements.

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

1.c. Due from tax authorities

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

	31-Dec-16	31-Dec-15
VAT receivable	3,386	1,981
Advance tax payments	2,591	1,318
Other amounts due from tax authorities	2,043	2,033
	8,020	5,332

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

"Advance tax payments" refer to the balance between the advance payments made and income taxes due for the period.

The item "Other amounts due from tax authorities" refers for Euro 1.7 million to IRES for which a refund was requested due to IRAP deductibility in the years 2007-2011 (art. 2, Italian Law Decree 201/2011)

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

1.d. Other current assets

This caption is made up as follows:

	31-Dec-16	31-Dec-15
Advances to social security institutions	102	98
Advances to suppliers	81	639
Rebates from suppliers and credit notes to be received	568	775
Receivables due from employees and third parties	220	210
IRB 2007 – Current portion	804	777
IRB 2016 – Current portion	481	0
Earthquake grants receivable	320	310
Other grants to be received	169	232
Receivables due from energy income	1,900	1,625
Financial derivatives – positive fair value	-	167
Other	447	380
Total other current receivables	5,093	5,213
Total current accrued income and prepaid expenses	1,830	1,308
	6,922	6,521

The item “IRB – Current portion” (relating to two separate transactions carried out in 2007 and 2016, respectively) refers to the principal element of the Industrial Revenue Bond due within 12 months (the first bond for twenty years, the second for thirty), as explained in more detail in the section on financial assets.

The line “Earthquake grants receivable” refers to the amount not yet collected in relation to the claims presented to the Emilia Romagna Region for damages suffered to plants and buildings, as well as to relocation expenses incurred following the earthquake in May 2012 and not covered by insurance policies.

“Receivables due from energy income” refer to certain types of revenues granted with various subsidies on energy costs, such as the “*energivore*” business grants, income from the sale of white certificates (Energy Efficiency Certificates) and from the sale of photovoltaic energy.

“Other” includes Euro 172 thousand relating to the recoverable VAT part of write-down of receivables and Euro 64 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:

	31-Dec-16	31-Dec-15
Bank and post office deposits	16,890	7,454
Cash and equivalents on hand and cheques	105	46
	16,995	7,500

The changes in financial position in 2016 compared with 2015 are analysed in the Consolidated Cash Flow Statement shown previously.

NON-CURRENT ASSETS

2.a. Goodwill

“Goodwill”, equal to Euro 8,139 thousand, relates to goodwill recognised on the acquisition of Gres Panaria Portugal and Montanari Ceramiche S.r.l., net of impairment.

In particular, with respect to Gres Panaria Portugal, the value of goodwill at 31 December 2016 is Euro 7,789 thousand and relates to:

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

The above amounts are stated net of impairment recorded in 2012 of Euro 4,300 thousand based on the outcome of impairment testing performed at year end with reference to the Cash Generating Unit consisting of the Portuguese company resulting from the merger of Maronagres Comercio e Industria Ceramica S.A. and Novagres Industria de Ceramica S.A. Though in the years thereafter the Portuguese investee company resumed generating profits, the value has not been restored in accordance with “IAS 36 – Impairment of assets” which states that “*An impairment loss recognised for goodwill shall not be reversed in a subsequent period*”.

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

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

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

The value of goodwill relating to Montanari Ceramiche S.r.l. at 31 December 2016 is Euro 350 thousand. This amount was generated as follows:

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

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

Impairment Testing

As stated earlier in the section on Accounting Principles, at least once a year, and any time there are indicators of impairment, the Group performs impairment tests as required by IAS 36 in order to verify the recoverability of the goodwill recorded in the consolidated financial statements. In the presence of indicators of potential critical issues, the recoverability check is extended to the entire residual value of the property, plant and equipment and intangible assets recorded in the consolidated financial statements.

As part of the 2016 financial statement closure process, impairment tests were performed as required by IAS 36. In particular, the Company identified the Cash Generating Units ("CGUs") that represent the smallest identifiable grouping capable of independently generating cash flows; these CGUs correspond to the business units that make up the Group.

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

The Company tested the recoverability of the value of net capital employed recorded in the Group's consolidated financial statements and attributed to each CGU, to which were added allocations made at consolidation level.

With respect to testing for the Panariagroup S.p.A. CGU, net capital employed was considered net of the carrying value of the equity investments.

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

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

	<i>Net capital employed</i>	<i>Goodwill - Allocation of consolidated financial statements</i>	<i>Equity investments</i>	<i>Total</i>
Panariagroup S.p.A.	215,351	-	(89,862)	125,489
Gres Panaria Portugal	43,718	14,438	-	58,156
Panariagroup USA and subsidiaries	72,539	(342)	-	72,197
Montanari Ceramiche S.r.l.	555	350	-	905

The value in use of the CGUs was determined by applying the UDCF (“Unlevered Discounted Cash Flow”) model, which considered the cash flows included in the 2017-2021 Business Plan approved by the Board of Directors of the Parent Company on 17 March 2017. The impairment method was approved by the Board of Directors on 11 November 2016. A terminal value was calculated at the end of the explicit forecast period, represented by a perpetuity. For determination of the cash flow in perpetuity, use was made of net operating profit less adjusted tax (NOPLAT) of the last year of the business plan as management estimates this to be a long-term “normalised” flow.

The growth rate used for the determination of the terminal value was prudently taken to be zero, in line with the assumption made for the tests performed in prior years.

The discount rate, or WACC, used to discount expected cash flows from all the CGUs subjected to testing was 6.26% (6.56% in 2015). The Company determined the discount rate by weighting the risks associated with the principal markets in which the Company operates on the basis of the turnover achieved by each of these.

Moreover, based on the information contained in the joint document of the Bank of Italy, CONSOB and ISVAP no. 2 of 6 February 2009, the Group set out to develop a sensitivity analysis on the test results compared with the change in the basic assumptions, identifying WACC and EBITDA as significant parameters for this analysis, as they condition the value in use of the cash generating units.

The use of positive values for the “g rate” would, in fact, have determined better results than the baseline scenario considered for the testing.

Note that the impairment tests are based on business plans determined by management on the basis of past experience and expectations of developments in the market in which the Company operates. In particular, the revenue forecasts were made by taking as reference the trends defined by the most recent forecasts published by “Confindustria Ceramica” and “Cresme”, without assuming any additional efficiency beyond the current production 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.

No impairment losses arose from the test performed.

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

Panariagroup Industrie Ceramiche S.p.A.

Based on the above parameters, the enterprise value of Panaria S.p.A. is some Euro 171 million, against the company's net capital employed as per the consolidated financial statements, net of the carrying value of equity investments, of Euro 125.5 million.

Gres Panaria Portugal S.A.

Based on the above parameters, the enterprise value of Gres Panaria Portugal is Euro 133.7 million, against the company's net capital employed as per the consolidated financial statements, inclusive of the allocation of consolidation differences, of Euro 58.2 million.

Panariagroup USA and subsidiaries

On the basis of the above parameters, the enterprise value of Panariagroup USA is USD 258.1 million, against the company's net capital employed as per the consolidated financial statements of USD 76.1 million.

Montanari Ceramiche S.r.l.

On the basis of the above parameters, the enterprise value of Montanari Ceramiche S.r.l. was around Euro 1.5 million, compared to the company's net capital employed of Euro 0.9 million.

Impairment - Sensitivity Analysis

The results of the Sensitivity Analysis made to assess the degree of "strength" of the test are provided below; in particular, the hypothetical values of WACC and EBITDA that would take the test to the break-even point were checked (with higher WACC = impairment, with lower EBITDA = impairment).

The results are shown in the following table:

	WACC	Change in EBITDA compared to the Plan
<i>Panariagroup S.p.A.</i>	8.5%	-23%
<i>Gres Panaria</i>	14.0%	-42%
<i>Panariagroup USA</i>	22.4%	-60%
<i>Montanari</i>	9.7%	-33%

As the table above shows, there is a considerable margin between the assumptions of the plan and the impairment limit.

It is worth pointing out that assessing the recoverable value of the cash generating units requires management to use its judgement in making estimates, which means that the Company cannot guarantee that the fixed assets booked in the consolidated financial

statements will not be impaired in the future. The circumstances and events that might result in further impairment will be monitored constantly by the Company.

2.b. Intangible assets

“Intangible assets” at 31 December 2016 amount to Euro 13,967 thousand, higher than the figure of Euro 8,374 thousand reported at 31 December 2015.

Changes during the year can be summarised as follows:

	2016	2015
Beginning Balance	5,593	2,202
Additions	8,777	3,730
Reclassifications from tang. assets	56	114
Retirements	-	-
Amortisation charge	(562)	(600)
Exchange differences for foreign subsidiaries	103	147
Ending Balance	13,967	5,593

The increases of the financial year mostly refer to software acquisitions and development. The most significant concerns the start-up of the IT system integration project at Group level, on a single platform (SAP), not yet operational and therefore pending amongst the constructions in progress.

The changes during the period are reported in an attachment.

2.c. Property, plant and equipment

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

	31-Dec-16	31-Dec-15
Land and buildings	23,688	24,855
Plant and machinery	67,882	54,254
Equipment and other assets	17,435	15,289
Construction in progress	10,590	14,717
	119,595	109,115

Changes during the year can be summarised as follows:

	2016	2015
Beginning Balance	109,115	89,851
Additions	29,307	34,510
Retirements	(721)	(597)
Amortisation charge	(18,798)	(16,853)
Reclassifications to intang. assets	(56)	(114)
Exchange differences for foreign subsidiaries	748	2,318
Ending Balance	119,595	109,115

The changes during the period are reported in an attachment.

Expenditure on property, plant and equipment during the period came to around Euro 29.3 million and refers, for roughly Euro 10.2 million, to investments in the Italian Business Unit, for Euro 4.9 million to investments in the Portuguese Business Unit and for roughly Euro 14.1 million to investments in the US Business Unit.

The most significant investments of the financial year have already been previously described in the Directors' Report.

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

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

The US subsidiary Florida Tile Inc. operates at the Lawrenceburg (Kentucky) plant under an operating lease that expires in 2030 (with multiple renewal options until 2050), an annual lease instalment of around USD 2 million and without buy-back option on expiry.

2.d. Financial assets

This caption comprises:

	31-Dec-16	31-Dec-15
Industrial Revenue Bond 2007	8,833	9,330
Industrial Revenue Bond 2016	13,952	-
Investment in Indian JV	70	180
Other	12	9
	22,867	9,519

The “Industrial Revenue Bond” items refer to the subscription of IRBs issued by Anderson County, Kentucky, (hereinafter, the “County”), forming part of a wider package of tax incentives granted in relation to major investments in the Lawrenceburg factory, operated by the subsidiary Florida Tile Inc. (defined by contract as the “Porcelain Project”).

The 2007 Bond relates to the implementation of the first grès porcelain production line at Lawrenceburg and has a twenty-year maturity, whilst the new transaction subscribed at the end of 2016 (thirty-year maturity) relates to the investment in construction of the third grès porcelain production line.

Both transactions were carried out under similar terms. In particular, their purpose is to save property taxes on the plants acquired as part of transactions involving two distinct and exactly matching operations:

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

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

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

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

The decrease in value of the 2007 Industrial Revenue Bond as at 31 December 2015 is due to an exchange gain of Euro 281 thousand arising from translation at the year-end exchange rate, net of the repayment of the annual instalment of Euro 777 thousand (USD 846 thousand).

The Industrial Revenue Bond subscribed in 2016 was for a total of Euro 14,431 (equal to USD 15,211) with annual repayment of USD 507 (Euro 481, reclassified among current assets).

2.e. Deferred tax assets

Deferred tax assets are composed as follows:

	31-Dec-16	31-Dec-15
Deferred tax assets:		
- taxed provisions	4,661	4,605
- tax loss carryforwards	7,272	10,399
- for public grant	-	1,194
- for ACE not deducted	-	216
- for Section 263 A Ending	687	648
- for deferred rent payable	263	240
- for AMT Credit carryover	541	265
- other	970	984
Deferred tax assets	14,394	18,551

Deferred tax assets for “tax loss carryforwards” refer to tax losses related to the subsidiary Florida Tile Inc. (Euro 1.7 million) and Panariagroup Industrie Ceramiche (Euro 5.6 million). In 2016 Gres Panaria Portugal fully recovered the tax losses from previous years.

With respect to these deferred tax assets, the business plans prepared and approved by Group management show future results that will allow their recovery. The recoverability of the deferred tax assets is thus subject to the ability of the aforementioned companies to produce, in the medium term, positive results in line with forecasts included in the business plans approved by the Group's directors on 17 March 2017.

The Parent Company Panariagroup Industrie Ceramiche S.p.A. has been included in the tax group headed up by its ultimate parent Finpanaria S.p.A., which also includes the related company Immobiliare Gemma S.p.A. and the subsidiaries Montanari 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 consolidating entity, handles all dealings with the tax authorities.

2.f. Other non-current assets

This caption comprises:

	31-Dec-16	31-Dec-15
Guarantee deposits for utilities	171	172
Loans due from third parties	188	365
Other	418	265
Total other non-current receivables	777	802
Total non current accrued expenses and deferred income	-	-
	777	802

The item "Loans due from third parties" includes a residual loan for Euro 188 thousand granted to a partner company belonging to the group of companies headed by Panariagroup Industrie Ceramiche S.p.A. as part of the project called "Industry 2015".

The item "Other receivables" includes Euro 133 thousand for deposits on leases of the stores of the subsidiary Florida Tile (Euro 139 at 31 December 2015).

5) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. CURRENT LIABILITIES

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

Short-term financial payables are made up as follows:

	31-Dec-16	31-Dec-15
Current account overdrafts	4,985	8,980
Export advances	8,169	5,250
Short-term loans	1,000	-
Long-term loans	22,085	21,885
IRB finance lease - 2007	804	778
IRB finance lease - 2016	481	-
Leases	266	257
	37,790	37,150

The changes in financial position during 2016, compared with 2015, are shown in the consolidated cash flow statement contained in the section relating to the consolidated financial statements.

The Group's total borrowing facilities granted by banks at 31 December 2016 amounted to Euro 116.6 million, of which Euro 13.2 million had been drawn down at that date.

"Medium/Long-term loans" include the current portion of unsecured loans obtained by the Parent Company between 2009 and 2016 for Euro 20,073 thousand and for Euro 1,581

thousand as the current portion of the USA business unit. These loans are discussed in more detail in the section entitled “Due to banks and other sources of finance” under non-current liabilities.

“Leases” relate to the current portion of leases associated with the IRB transaction for Euro 1,284 thousand and to finance leases on operating assets for Euro 267.

Like in previous years, the Group has not carried out any factoring or securitisation transactions in 2016.

3.b. Trade payables

The trend in trade payables is as follows:

	31-Dec-16	31-Dec-15
Trade payables	83,647	76,037

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. An increase was recorded over the same period in the previous year, due to the combined effect of the increase in production recorded in 2016 and to the growth in investments.

3.c. Due to tax authorities

This caption comprises:

	31-Dec-15	31-Dec-15
Withholding tax	3,008	2,729
Income taxes	67	147
Other	245	124
	3,320	3,000

3.d. Other current liabilities

At 31 December 2016, this caption comprises:

	31-Dec-16	31-Dec-15
Due to social security institutions	4,090	3,661
Due to employees	7,210	6,549
Due to customers	3,941	3,340
Due to agents	7,100	6,685
Financial derivatives – negative fair value	361	57
Due for EUA shares to purchase	418	482
Other	948	1,060
Total current payables	24,068	21,834
Deferred income from capital grants	156	223
Accrued interest expense	24	70
Deferred income from earthquake insurance payouts	371	135
Other	158	167
Total current accrued expenses and deferred income	709	595
	24,777	22,429

The item “Due for EUA shares to purchase” refers to the value of the greenhouse gas emission shares to purchase in 2017 to meet the CO2 emissions of the Parent Company recorded in 2016.

The increase in “Due to agents” reflects the growth in revenues in the period.

“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, and the increase for the period is attributable to seismic upgrade works carried out on plants and buildings in 2016.

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31-Dec-16	31-Dec-15
<i>Employee severance indemnities</i>	5,913	5,837

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

Demographic assumptions

Retirement: 100% on reaching the so-called “AGO” (*Assicurazione Generale Obbligatoria*) requirements

Mortality rate: demographic base IPS 55 prepared by ANIA (National Association of Insurance Companies)

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-16: IBoxx Eurozone Corporate AA discount rate = 0.86 %

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

The inflation rates taken into consideration are as follows:

	2016	2015
2016	1.50%	1.50%
2017	1.50%	1.80%
2018	1.50%	1.70%
2019	1.50%	1.60%
2020 and beyond	1.50%	2.00%

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

Balance at 31-Dec-15	5,837
Charge to the income statement	126
Charge to "Other Comprehensive Income"	372
Portion paid out during the year	(422)
Employee severance indemnities at 31-Dec-16	5,913

4.b. Deferred tax liabilities

Details of deferred tax liabilities are provided below:

	31-Dec-16	31-Dec-15
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	1,919	2,000
- valuation of severance indemnities according to IFRS	(147)	(51)
- valuation of agents' termination indemnities according to IFRS	186	164
- valuation of inventories	386	712
- lease-back	172	192
- exchange differences on valuation	280	455
- accelerated amortisation/depreciation	6,135	4,296
- other	58	84
Deferred tax liabilities	8,989	7,852

Deferred tax liabilities provided against the "revaluation of acquired company buildings at fair value" (Euro 1,919 thousand) refer to the recognition of the current value of acquired company assets at fair value in the consolidated financial statements, net of accumulated depreciation on the acquisition date.

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

4.c. Provision for risks and charges

Provisions for risks and charges are made up of:

	31-Dec-16	31-Dec-15
Provision for agents' termination indemnities	3,253	3,207
Provision for tax risks	485	485
Provision for returns	245	205
Other provisions	742	436
	4,725	4,333

The Provision for agents' termination indemnities refers to the amount allocated as termination indemnity payable on existing agent contracts and, in agreement with international accounting standards, the liability was discounted at a rate of 1.85%.

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

“Provisions for tax risks” include allocations on contingent tax liabilities; the balance at 31 December 2016 refers entirely to the risk connected with a dispute with the Portuguese tax office and reflects the best estimate of expenses to be incurred on the basis of the analysis of irregularities received and the likelihood of the defensive arguments made by the Directors, with the help of the Group's tax consultants, being upheld.

The main items that make up “Other provisions” are the “Provision for the risks of ongoing disputes” and the “Provision for returns”.

The Parent Company's tax years from 2012 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements at 31 December 2016.

With regard to tax risks, note that the dispute on use of the “Tax receivable not due” ascertained with issue of a tax recovery demand by the Tax Authorities in December 2015 to the parent company, is still pending. 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:

	31-Dec-16	31-Dec-15
Long-term loans	63,785	53,467
IRB finance lease - 2007	8,833	9,330
IRB finance lease - 2016	13,952	-
Leases	417	652
	86,987	63,449

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

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

- Mortgage Security for Euro 37,500 thousand issued by the affiliated company Immobiliare Gemma S.p.A.;
- Guarantee for Euro 5,000 thousand issued by the parent company Finpanaria S.p.A.
- Mortgage-backed guarantee for Euro 1,100 thousand for assumption of the mortgage on the owned property held for sale.

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

The "IRB finance lease" relates to the transactions fully discussed previously in note "2.d Financial assets", the Industrial Revenue Bond and associated with the package of tax incentives obtained for the investments in the Lawrenceburg factory of Florida Tile Inc. As mentioned previously in connection with the Bond, the decrease is due to the subscription of a new Bond in 2016, the repayment of principal on the loan obtained during 2016 and the exchange-rate effect deriving from the translation to Euro of the original amounts (denominated in dollars) using the year-end rate of exchange.

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

	Long-term loans	Leases	IRB	Total
12 months	22,085	1,551	(1,284)	22,352
2018	23,536	1,552	(1,287)	23,802
2019	13,042	1,436	(1,284)	13,194
2020	9,558	1,284	(1,284)	9,558
2021	4,535	1,284	(1,284)	4,535
2022	3,134	1,284	(1,284)	3,134
2023	3,134	1,284	(1,284)	3,134
2024	2,956	1,284	(1,284)	2,956
2025	2,778	1,284	(1,284)	2,778
2026	1,112	1,284	(1,284)	1,111
Beyond 10 years	0	11,226	(11,226)	0
Medium / Long-term	63,785	23,202	(22,785)	64,202
Financial payables	85,870	24,753	(24,069)	86,554

The credit amounts refer to the current and long-term operations of the already commented IRB, whose maturities are related to the amortization plan of the leasing.

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

4.e. Other non-current liabilities

At 31 December 2016, this caption comprises:

	31-Dec-16	31-Dec-15
Due to suppliers beyond 12 months	1,483	5,077
Accrued rent - Lawrenceburg	670	643
Deferred income on grants for earthquake	1,153	2,151
Other	80	97
	3,386	7,968

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.

“Accrued rent – Lawrenceburg” is the difference between the rent payments effectively made and the higher rent instalments due as calculated according to IAS. In fact, the

contract provides for rent payments that increase every five years, whereas IAS 17 assumes that they are booked on a straight-line basis.

“Deferred income on grants for earthquake” includes the amount already collected in previous years from the Regional Government and from insurance companies for damages suffered as a result of the 2012 earthquake. These grants mostly refer to works included under fixed assets, recognised in the income statement according to the useful life of the investments to which they refer. The decrease compared to the previous year is associated with the most recent seismic upgrading works carried out in 2016, already envisaged in the original plan submitted to the Region.

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

5. EQUITY

Equity consists of:

	31-Dec-16	31-Dec-15
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,958	3,958
Translation reserve	10,858	8,589
Other reserves and retained earnings	58,233	52,890
Profit (Loss) for the year	11,215	5,865
	172,218	159,256

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

To date, no stock option plans have been granted.

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

Share capital

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

Share premium reserve

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

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

Revaluation reserves

The revaluation reserves amounting to Euro 4,493 thousand include 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 2015 profits to allocate.

Translation reserve

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

Other reserves and retained earnings

The “Other equity reserves” are made up as follows:

	31-Dec-16	31-Dec-15
Extraordinary reserve	50,435	50,435
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings/losses and other reserves	8,335	2,992
	58,233	52,890

The Extraordinary reserve remained unchanged compared to 2015.

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

Treasury shares

At 31 December 2016, the treasury shares held in portfolio were 432,234, at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

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

The treasury shares currently held were purchased in accordance with a resolution passed by the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 26 April 2005. This resolution was then renewed at the Shareholders' Meetings that approved subsequent years' financial statements.

“Retained earnings (accumulated losses) and other reserves” of Euro 8,335 thousand refer principally to profits made by subsidiaries after preparation of the first consolidated financial statements and not distributed, and to the allocation of the result of the previous year.

No deferred taxes have been provided on these reserves, as no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as at 31 December 2016:

- “Interest rate swap” with a notional underlying principal of Euro 1,875 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 a portion of the total existing and outstanding loan obtained during 2016 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 2016 with expiry 31/12/2020.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 361 thousand, relating to the mark to market as at year end. Adjusting these instruments to fair value at 31 December 2016 involved booking a loss of Euro 181 thousand to the income statement for the period.

With regard to the derivative transaction expiring 31 December 2020, for an underlying total of Euro 20,000 thousand, effectiveness testing was carried out as at 31 December 2016 which confirmed the hedging requirements envisaged in IAS 39. The losses on the hedging instrument were therefore recognised in Equity, in accordance with cash flow hedge accounting, for Euro 290.

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 AND COMMITMENTS

At 31 December 2016 the following guarantees had been given:

- for USD 1.2 million in favour of a Kentucky government authority for the exercise of production activities at the Lawrenceburg, KY, plant of Florida Tile;
- for 14.9 million Rupees in favour of AGL Panaria as bank guarantees (around Euro 0.2 million).

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

The loan contracts do not contain any covenants.

6) COMMENTS ON THE MAIN INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales

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

	31-Dec-16	31-Dec-15
Italy	68,998	67,793
Abroad	312,450	278,557
(Customer rebates)	(4,404)	(3,440)
	377,045	342,910

Revenues from sales increased by 10%, from Euro 342,910 thousand at 31 December 2015 to Euro 377,045 thousand at 31 December 2016 (Euro +34.1 million).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31-Dec-16	31-Dec-15	Change
Expense recoveries (displays, transport)	6,791	4,793	1,998
Gains on the sale of property	70	247	(177)
Out-of-period income	261	619	(358)
Compensation for damages	760	237	523
Grants	1,043	674	369
Energy income	1,828	2,475	(647)
Capitalisation of own work	1,445	1,150	295
Other	1,181	942	239
	13,379	11,137	2,242
% on Value of Production	3.4%	3.1%	0.3%

"Expense recoveries" include transport and sample costs recharged to customers. The increase compared to 2015 is attributable to two factors: the higher recover of transport costs by Florida Tile from its customers, as an effect of the diesel tariff trend, and the adoption of stricter rules on the free loan of sample materials to customers in a number of the Italian divisions.

The item "Capitalisation of own work", in 2016 recorded at Euro 1,455 thousand, refers to the Italian and American personnel employed for the implementation of the new SAP management platform.

"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” refer to the various subsidised amounts, including staff training expense and the current portion of grants received as compensation for damages suffered in the 2012 earthquake (the latter overlap with the amortisation of improvement works carried out and capitalised).

7. COST OF PRODUCTION

7.a. Raw materials

“Raw materials” are made up as follows:

	31-Dec-16	% of V.o.P.	31-Dec-15	% of V.o.P.
Raw materials	50,287	12.8%	45,116	12.6%
Finished products	45,480	11.6%	45,465	12.7%
Packaging	12,787	3.3%	11,626	3.2%
Price lists/Catalogues	1,185	0.3%	1,178	0.3%
Remaining change	(354)	(0.1)%	(182)	(0.0)%
Other	99	0.0%	367	0.1%
	109,484	28.0%	103,570	28.9%

The increase in this caption substantially relates to the increase in 2016 production compared to the previous year, already described in the Directors' Report.

The item “Finished products” refers to purchases of ceramic material from third parties.

7.b. Services, leases and rentals

“Services, leases and rentals” are made up as follows:

	31-Dec-16	% of V.o.P.	31-Dec-15	% of V.o.P.
Property rental	10,222	2.6%	9,976	2.8%
Rent of other fixed assets	2,694	0.7%	2,217	0.6%
Commissions	15,095	3.9%	13,722	3.8%
Utilities	34,155	8.7%	33,978	9.5%
Commercial expenses and advertising	8,688	2.2%	8,260	2.3%
Sub-contract work	11,552	3.0%	11,874	3.3%
Maintenance	11,702	3.0%	10,196	2.8%
Transportation	26,548	6.8%	24,780	6.9%
Industrial services	7,729	2.0%	6,866	1.9%
Directors' and statutory auditors' fees	983	0.3%	860	0.2%
Consulting fees	4,629	1.2%	4,176	1.2%
Insurance	1,186	0.3%	1,000	0.3%
Other	10,676	2.7%	8,643	2.4%
	145,859	37.3%	136,548	38.0%

“Property rental” mainly includes:

- rents of Euro 5,449 thousand that Panariagroup Industrie Ceramiche S.p.A. pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the company carries on its business. The rent contract covers a contractual period of eight years (with tacit renewal on the first expiry for another eight years), for an annual rent initially set at Euro 4,500 thousand, revalued each year according to ISTAT statistics. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.
- rents that Florida Tile Inc. pays for the land and building of its plant in Lawrenceburg, its head office and the premises used as branches for the retail sale of finished products amount in total to Euro 4,702 thousand.

7.c. Personnel costs

Personnel costs passed from Euro 84,689 thousand in the year ended 31 December 2015 (23.6% of value of production) to Euro 91,999 thousand in the year ended 31 December 2016 (23.5% of value of production).

Personnel costs can be broken down as follows:

	31-Dec-16	31-Dec-15
Wages and salaries	70,563	63,538
Social security contributions	17,916	18,053
Severance indemnities and other funds	2,408	2,298
Other personnel costs	1,112	800
	91,999	84,689

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

	31-Dec-16	31-Dec-15
Managers	39	39
Supervisors and white collar workers	665	646
Foremen and blue collar workers	952	905
	1,656	1,590

The increased cost is more than proportionate to the increase in “people employed” due to the higher number of hours that the existing employees worked, mainly attributable to the greater use of the production facilities as compared to 2015.

7.d. Other operating expenses

“Other operating expenses” are made up as follows:

	31-Dec-16	% of V.o.P.	31-Dec-15	% of V.o.P.
Out-of-period expenses	167	0.0%	218	0.1%
Gifts	46	0.0%	47	0.0%
Trade association fees	104	0.0%	100	0.0%
Losses on disposals	223	0.1%	231	0.1%
Indirect taxes	1,236	0.3%	1,213	0.3%
Office equipment	390	0.1%	494	0.1%
Other	1,104	0.3%	1,341	0.4%
	3,270	0.8%	3,644	1.0%

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Amortisation/depreciation rose compared to 2015, up from Euro 17,453 thousand as at 31 December 2015 to Euro 19,360 thousand as at 31 December 2016 as a result of investments made in the last two years. It should be noted that no changes were made to either the rates or the original repayment plans.

8.b. Provisions and impairment

“Provisions and impairment”, amounting to Euro 2,402 thousand, include allocations to the provision for slow-moving and obsolete goods for Euro 901 thousand, against allocations to the provision for future charges estimated at Euro 632, write-downs of receivables for Euro 526 thousand and allocations for agents’ termination indemnities for Euro 343 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31-Dec-16	31-Dec-15
Interest on short-term loans	(77)	(172)
Interest expense on medium/long-term loans	(900)	(973)
Financial expense on severance indemnity liability	(113)	(93)
Fair value losses on derivatives	(181)	-
Bank charges and credit card fees	(936)	(800)
Other	(791)	(623)
Total financial expense	(2,998)	(2,661)
Bank interest income	5	2
Interest on receivables	16	32
Fair value gains on derivatives	-	216
Total financial income	21	250
TOTAL FINANCIAL INCOME AND EXPENSE	(2,977)	(2,411)
<i>% of Value of production</i>	<i>-0.8%</i>	<i>-0.7%</i>
Exchange losses	(2,036)	(3,051)
Exchange gains	2,837	4,120
TOTAL EXCHANGE GAINS AND LOSSES	801	1,069
<i>% of Value of production</i>	<i>+0.2%</i>	<i>+0.3%</i>
Financial losses on discounting	-	(340)
Financial gains on discounting	60	-
DISCOUNTING GAINS (LOSSES)	60	(340)
<i>% of Value of production</i>	<i>-0.0%</i>	<i>-0.1%</i>
Impairment losses on equity investments in subsidiaries	(69)	-
Impairment losses on equity investments in Joint Ventures	(358)	(164)
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	(427)	(164)
<i>% of Value of production</i>	<i>-0.1%</i>	<i>-0.0%</i>
Total financial income (expense)	(2,543)	(1,846)
<i>% of Value of production</i>	<i>-0.6%</i>	<i>-0.5%</i>

The total financial income and expense decreased compared to the previous year, mainly as a result of the exchange rate trend (in any event positive) but generating gains lower than those of the previous year and with the recognition of fair value losses on derivatives, which recorded a gain at the end of 2015.

Financial income and expense - Sensitivity analysis

As previously stated in the section on “Financial risks”, the Group is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.

The following is a sensitivity analysis to show the impact on the 2016 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	Higher (Lower) Pre-tax profit € mln
+ 0.50%	(0.4)
+ 1.00%	(0.8)
+ 2.00%	(1.6)

Exchange rates (EUR/USD)

Rate	Higher (Lower) Pre-tax profit € mln
0.90	+6.3
1.00	+2.9
1.10	+0.2
1.20	-2.1
1.30	-4.0

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a Income taxes

Income taxes for the financial year were Euro 5,308 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 - ITALIAN TAXATION

A	Pre- Tax profit	3,959
B	Personnel costs	50,831
C	Net finance costs	536
D	IRAP deductions for tax wedge	49,670

Theoretical
Theoretical tax "Tax Rate"

A	Theoretical taxable income for IRES purpose	3,959
----------	---	-------

1,089	27.50%
-------	--------

A+B+C+D	Theoretical taxable income for IRAP purpose	5,656
----------------	---	-------

221	3.90%
-----	-------

CF1	Theoretical Tax Charge - ITALIAN TAXATION
------------	---

1,309	33.07%
-------	--------

THEORETICAL TAX RATE - PORTUGUESE TAXATION

A	Theoretical taxable income for IRC purpose	5,595
----------	--	-------

Theoretical
Theoretical tax "Tax Rate"

1,175	21.00%
-------	--------

CF2	Theoretical Tax Charge - PORTUGUESE TAXATION
------------	--

1,175	21.00%
-------	--------

THEORETICAL TAX RATE - US TAXATION

A	Theoretical taxable income for Federal + State Taxes purposes	9,890
----------	---	-------

Imposte
teoriche "Tax Rate"
teorico

3,857	39.00%
-------	--------

CF3	Theoretical Tax Charge - US TAXATION
------------	--------------------------------------

3,857	39.00%
-------	--------

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	Theoretical Tax Charge - TOTAL
------------------------	--------------------------------

6,341	39.02%
-------	--------

No taxation of earthquake grants

(242)	-1.49%
-------	--------

Tax effect on consolidation entry

(282)	-1.74%
-------	--------

Italian's allowance for corporate equity (ACE)

(256)	-1.58%
-------	--------

IRES Non-deductible costs

271	1.67%
-----	-------

IRAP Non-deductible costs

191	1.18%
-----	-------

Benefit from fiscal consolidation

(113)	-0.70%
-------	--------

Dividends - taxation 5%

(517)	-3.18%
-------	--------

Difference

(85)	-0.53%
------	--------

ACTUAL tax charge

5,308	32.66%
-------	--------

Already from the financial statements for the year ended 31 December 2015, the parent company arranged for adjustment of the deferred tax assets and liabilities recognised at the new IRES rate, which fell from 27.5% to 24% (with effect from the year ending 31 December 2017).

IAS 12 states, in fact, that: *“Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.”*

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, the basic earnings per share of Euro 0.247 (earnings of Euro 0.129 per share at 31 December 2015) is disclosed at the foot of the income statement.

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

No events/transactions worthy of note 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.

POSITIONS OR TRANSITIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

The “Regulation containing instructions on related-party transaction”, adopted by CONSOB Resolution 17221 of 12 March 2010 and subsequently amended by CONSOB Resolution 17389 of 23 June 2010 implemented art.2391-bis of the Italian Civil Code. By resolution on 23 April 2014, the Board implemented the procedure on related parties, which takes account of the additional instructions on how to apply the new rules provided in Consob Communication DEM/10078683 OF 24 September 2010. The purpose of this procedure is to lay down the approach to be taken in identifying, reviewing and approving transaction to be carried out by Panariagroup, or by its subsidiaries, with related parties to ensure that they are transparent and fair from both a substantial and procedural point of view.

The identification of transactions with related parties is based on Consob Regulation. The Group have transactions with related parties, mainly the parent company Finpanaria S.p.A. (Parent company that does not exercise management and coordination) and to Immobiliare Gemma S.p.A. (Affiliated company, controlled by Finpanaria), as well as persons responsible for administration and management, their family members and any companies controlled by them. The transactions include commercial and real property referred to the rental of real estate where parent company operates and guarantees.

In 2016 there were no transactions with related parties other than Finpanaria S.p.A. and Immobiliare Gemma S.p.A.

Operation with related parties are describe below:

INCOME STATEMENT

(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Services	33	26	59
Total revenues	33	26	59

Revenues for services refer to consulting provided by the Ultimate Parent Company 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 given	16	57	73
Total costs	16	5,506	5,522

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

Commissions are a consideration for the guarantees received, which are described in the “due to banks - non-current”.

In accordance with Consob Communication DEM/6064293, the impact of related party transactions on the Company's results and cash flows is shown below:

	% of Value of Production	% of pre-tax profit	% of operating cash flow *
Revenues	0.02%	0.36%	0.16%
Costs	1.41%	33.42%	15.08%

* before changes in working capital

BALANCE SHEET

(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	-	-	-
Payables	-	-	-
Due from (to) tax authorities	1,792	-	1,792
Net receivable (payable)	1,792	-	1,792

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

All related party transactions are carried out on an arm's length basis.

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

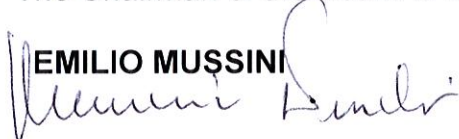
ATTACHMENTS

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

- Statement of changes in intangible assets and goodwill from 1 January 2015 to 31 December 2016
- Statement of changes in property, plant and equipment from 1 January 2015 to 31 December 2016
- Statement of changes in financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuers' Regulation
- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Sassuolo, 17 March 2017

The Chairman of the Board of Directors

EMILIO MUSSINI


EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2015 to 31 December 2016

Panariagroup - Consolidated financial statements

**Statement of changes in intangible assets and goodwill
from 1 January 2015 to 31 December 2016
(in thousands of Euro)**

	Concessions, licenses, trademarks	Intangible assets in progress	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1 January 2015	2,202	0	-	2,202	8,139
Net increases	641	3,089		3,730	-
Net decreases and impairment	0			0	-
Amortisation	(600)			(600)	-
Reclassifications	14	100		114	-
Exchange differences on foreign subsidiaries	147			147	-
Balance at 31 December 2015	2,404	3,189	-	5,593	8,139
Net increases	337	8,440		8,777	-
Net decreases and impairment				-	-
Amortisation	(562)			(562)	-
Reclassifications	(71)	127		56	-
Exchange differences on foreign subsidiaries	42	61		103	-
Balance at 31 December 2016	2,150	11,817	0	13,967	8,139

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2015 to 31 December 2016

Panariagroup - Consolidated financial statements

**Statement of changes in tangible asset
from 1 January 2015 to 31 December 2016
(in thousands of Euro)**

	Terreni e Fabbricati	Impianti e Macchinari	Attrezzature e altri beni	Immobilizzazioni in corso e acconti	totali
Balance at 1 January 2015	25,158	49,282	14,531	880	89,851
Net increases	698	15,530	3,371	14,911	34,510
Net decreases and impairment	(4)	(587)	(6)		(597)
Amortisation	(997)	(12,400)	(3,456)		(16,853)
Reclassifications	-	819	121	(1,054)	(114)
Exchange differences on foreign subsidiaries	-	1,610	728	(20)	2,318
Balance at 31 December 2015	24,855	54,254	15,289	14,717	109,115
Net increases	437	14,122	5,070	9,678	29,307
Net decreases and impairment	(676)	(4)	(41)		(721)
Amortisation	(928)	(13,861)	(4,009)		(18,798)
Reclassifications	-	12,861	924	(13,841)	(56)
Exchange differences on foreign subsidiaries	-	510	202	36	748
Balance at 31 December 2016	23,688	67,882	17,435	10,590	119,595

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in financial position

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

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	31-Dec-2016	31-Dec-2015
A Cash	(105)	(46)
B Other Cash and cash equivalents	(16,890)	(7,454)
C Securities held for sale	0	0
D Liquidity (A+B+C)	(16,995)	(7,500)
E Short-term financial assets	(1,285)	(778)
F Due to banks	14,154	14,230
G Current portion of long-term loans	22,085	21,885
H Other short-term financial debt	1,551	1,035
I Short-term financial indebtedness (F+G+H)	37,790	37,150
J Net short-term financial indebttness	19,510	28,872
K Non-current portion of long-term loans	63,785	53,467
L Due to bondholders	0	0
M Other long-term financial debt	23,202	9,982
N Long-term financial indebtedness (K+L+M)	86,987	63,449
Z Long-term financial assets	(22,785)	(9,330)
O Net financial indebttness (J+N+Z)	83,712	82,991

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

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

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
Paolo Mussini	Managing Director	Ordinary administration of the Cotto d'Este Division
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup S.p.A.
Silvia Mussini	Director	Non-executive
Paolo Onofri	Director	Independent non-executive
Enrico Palandri	Director	Independent non-executive
Sonia Bonfiglioli	Director	Independent non-executive
Roberto Tunioi	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
Sergio Marchese	Chairman of the Board of Statutory Auditors
Francesca Muserra	Standing Auditor
Piergiorgio Ascari	Standing Auditor
Vittorio Pincelli	Alternate Auditor
Fabio Andreoli	Alternate Auditor

Compensation Committee

Name
Enrico Palandri
Sonia Bonfiglioli
Paolo Onofri

Internal Control and Risk Committee

Name
Paolo Onofri
Enrico Palandri
Sonia Bonfiglioli

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

EY S.p.A.

EXPLANATORY NOTES - ATTACHMENT 5

- Disclosure required by article 149-duodecies of the CONSOB Issuers' Regulation

Type of services	Party providing the services	Recipient	Fees earned in 2016
Auditing	Reconta Ernst & Young S.p.A.	Panariagroup S.p.A.	118
	Reconta Ernst & Young S.p.A.	Panariagroup USA e controllate (*)	79
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	30
Exepenses on auditing serices	Reconta Ernst & Young S.p.A.	Group	36
Other services	Reconta Ernst & Young S.p.A.	Panariagroup S.p.A.	12
Total			275

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

EXPLANATORY NOTES - ATTACHMENT 6

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

ATTACHMENT 3C-ter

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

1. The undersigned, Paolo Mussini, Emilio Mussini and Giuliano Pini, as Managing Directors, and Damiano Quarta, as Financial Reporting Manager, of Panariagroup Industrie Ceramiche S.p.A., taking into account the provisions of art. 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, hereby certify:

- the adequacy in relation to the characteristics of the firm and
- the actual application
of the administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 31 December 2016.

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

3. We also certify that:

3.1 the Consolidated Financial Statements:

- a) have been prepared under the applicable international accounting standards endorsed by the European Union, pursuant to EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) agree with the balances shown in the books and accounting entries;
- c) give a true and fair view of the equity, economic and financial position of the Issuer and all companies included in the consolidation.

3.2 The Directors' Report includes a reliable analysis of performance and the results of operations, and of the general situation of the Issuer and the companies included within the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Sassuolo, 17 March 2017

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>	31-dec-2016	31-dec-2015
CURRENT ASSETS	77,736	73,697
Inventories	50,082	52,718
Trade Receivables	19,280	16,784
Due from tax authorities	1,819	0,255
Other current assets	2,356	2,348
Cash and cash equivalents	4,199	1,592
NON-CURRENT ASSETS	81,254	54,000
Goodwill	0,000	0,000
Intangible assets	9,238	3,493
Property, plant and equipment	42,399	32,986
Financial assets	24,088	10,228
Deferred tax assets	5,085	7,001
Other non-current assets	0,444	0,293
TOTAL ASSETS	158,990	127,697
 <u>LIABILITIES</u>	 31-dec-2016	 31-dec-2015
CURRENT LIABILITIES	53,445	33,555
Due to banks and other sources of finance	8,510	2,908
Trade payables	41,333	27,744
Due to tax authorities	0,793	0,491
Other current liabilities	2,809	2,412
NON-CURRENT LIABILITIES	38,585	34,002
Employee severance indemnities	-	-
Deferred tax liabilities	6,413	4,559
Provisions for risks and charges	0,302	0,115
Due to banks and other sources of finance	31,078	25,448
Other non-current liabilities	0,792	3,880
TOTAL LIABILITIES	92,030	67,557
EQUITY	63,020	60,140
Share capital	63,020	63,020
Capital Reserves	(2,882)	(10,853)
Net Profit	6,822	7,973
TOTAL LIABILITIES AND EQUITY	158,990	127,697

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31-dec-2016		31-dec-2015	
REVENUES FROM SALES AND SERVICES	157,041	97,0%	145,961	94,7%
Change in inventories of finished products	(2,228)	-1,4%	3,413	2,2%
Other revenues	7,149	4,4%	4,820	3,1%
VALUE OF PRODUCTION	161,962	100,0%	154,194	100,0%
Raw materials	(64,820)	-40,0%	(62,805)	-40,7%
Services, leases and rentals	(43,354)	-26,8%	(40,354)	-26,2%
Personnel costs	(33,710)	-20,8%	(30,577)	-19,8%
Other operating expenses	(1,623)	-1,0%	(1,956)	-1,3%
PRODUCTION COSTS	(143,507)	-88,6%	(135,692)	-88,0%
GROSS OPERATING PROFIT	18,455	11,4%	18,502	12,0%
Amortisation and depreciation	(5,618)	-3,5%	(5,009)	-3,2%
Provisions and writedowns	(0,892)	-0,6%	(0,503)	-0,3%
NET OPERATING PROFIT	11,945	7,4%	12,990	8,4%
Financial income (expense)	(1,000)	-0,6%	(1,062)	-0,7%
PRE-TAX PROFIT	10,945	6,8%	11,928	7,7%
Income taxes	(4,123)	-2,5%	(3,955)	-2,6%
NET PROFIT	6,822	4,2%	7,973	5,2%