



ANNUAL REPORT 2016 - DRAFT

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Panariagroup Industrie Ceramiche
INDEPENDENT AUDITORS' REPORT

Panariagroup Industrie Ceramiche S.p.A.

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 financial statements

We have audited the accompanying financial statements of Panariagroup Industrie Ceramiche S.p.A., which comprise the statement of financial position as at 31 December 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Panariagroup Industrie Ceramiche S.p.A. as at 31 December 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 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 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 financial statements of Panariagroup Industrie Ceramiche S.p.A. 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.

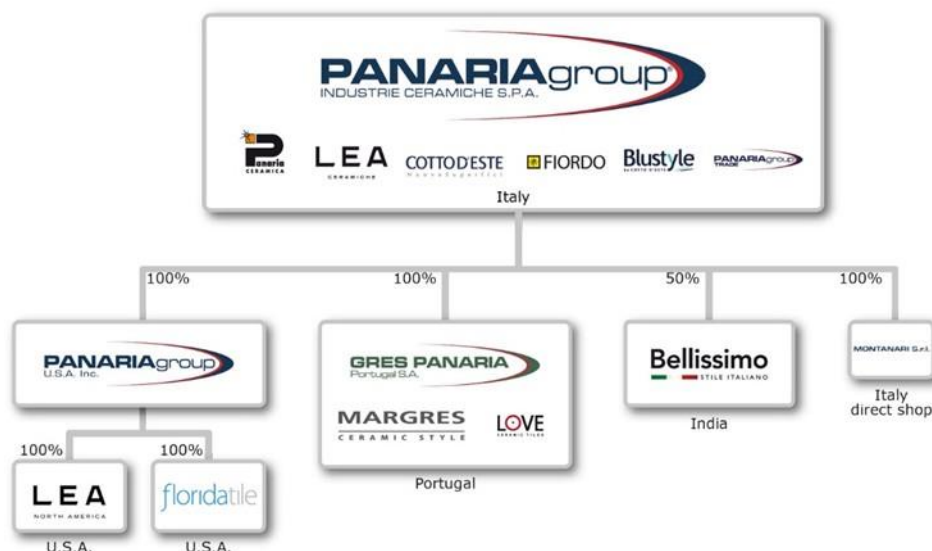
Panariagroup Industrie Ceramiche

DIRECTORS' REPORT

ON THE FINANCIAL STATEMENTS FOR THE YEAR 2016

STRUCTURE OF THE GROUP

The structure of the Group 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 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 materials in the USA through its own distribution network located mainly on the East Coast.

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

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

Montanari Ceramiche S.r.l., based in Crespellano, Bologna (Italy), share capital of Euro 48,000.00, 100% controlled 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.

It is also noted that during 2016, there was the liquidation of Panariagroup Immobiliare, a company 100% owned by Panariagroup S.p.A.; that company at liquidation date did not hold any real estate and was already inoperative.

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

Board of Statutory Auditors

Name	Office
Marchese Sergio	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 and a leader in innovation and beauty.

OUR MISSION

We specialise in the production and sale of surface ceramics to promote beauty and innovation.

- Our team generates sustainable value for shareholders, employees and business partners with regard to the environment of the company.
- Our focus is research and innovation to enhance the beauty and quality of our products.
- Our objective is to satisfy the high expectations with regard to wellbeing and aesthetics of our private and professional clients, in both construction and architecture.

OUR VALUES

TECHNOLOGICAL LEADERSHIP

We are constantly investing in cutting-edge research, technology and factories to respond to all architectural and interior design requirements with innovative solutions capable of serving as a reference point for the sector.

QUALITY AND AESTHETIC EXCELLENCE

We strive for industrial excellence, from the quality of raw materials to efficiency of processes, to obtain products combining pure aesthetic value with the highest level of technical performance.

RESPONSIBILITY

We always place people and quality of life at the centre of our focus, with safe, environmentally sustainable products, and maximum respect for the people we work with.

RELIABILITY

The guarantee of a Group that, from family roots in the ceramic district of Sassuolo to listing on the Milan Stock Exchange, has grown to become a firm part of the international scene, operating throughout the world while maintaining an Italian heart.

Panariagroup is one of the main producers of ceramic tiles for floors and walls. We have 1,600 employees, 9,000 clients, 6 factories (3 in Italy, 2 in Portugal and 1 in the USA) and a presence, through a wide and extensive sales network, in over 100 countries worldwide.

Specialising in the production of porcelain and laminated stoneware, the Group is positioned in the upper, luxury section of the market through nine commercial brands: Panaria, Lea, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, capable of satisfying a diverse clientele with a keen interest in the technical and aesthetic quality of products.

Directors' Report on the 2016 Financial Statements

Results and significant events in 2016

Shareholders,

Over the course of 2016, the global economy continued to grow, but at a different rate in different areas.

In Europe, expansion, slowed down by the low international demand, continued to stabilise at a limited rate. The largest European economies likewise felt the effects of the reduced expansion phase with lower internal consumption and stagnation of investments: GDP slowed down growth in Germany, was reduced in France and stagnated in Italy, while economic activity in the United Kingdom, despite the Brexit referendum result in June, accelerated, thanks to the positive trend in national demand.

In the USA, GDP increased (+3.5%) and continued to accelerated thanks to the robust expansion of internal consumption.

The overall picture for emerging countries is improved: growth in China remained stable (+6.7%), continuing to benefit from credit expansion and increased spending on infrastructure. In India, GDP growth was sustained (+7%), with the recession in both Brazil and Russia becoming less severe.

Over the course of 2016, oil prices, in the presence of excess supply, fluctuated between 40 and 50 dollars a barrel; the announcement that OPEC had reached an agreement to cut production partially revitalised prices, which went back up to around 50 dollars a barrel in the last quarter of 2016; futures contracts suggest a slight growth in prices in 2017.

Monetary policies remained expansive in developed countries, more prudent in China and India, while in Brazil and Russia, in the face of high inflation rates, the monetary authorities maintained a restrictive approach.

From the second half of 2016, conditions in European financial markets gradually improved and the tensions deriving from the result of the British referendum were absorbed.

Over the course of 2016, the construction sector maintained a fairly satisfactory rate of growth in the main countries where the Group has a presence, with the exception of Italy and Russia, where the weakness of the sector resulted in a slight downturn.

Sector context: performance of Italian competitors

For the Italian ceramic sector, 2016 consolidated the growth trend that began in 2015, with an increase in sales on foreign markets of around 6% and on the domestic market of around 4%. In the EU, there was a general growth, reaching 8%, notably with recovery of the French market (second most important market after Germany), which, after a downturn in 2015, recorded growth of over 5% in 2016.

The downturn in the Russian market, which saw a 13% reduction in turnover, continued, albeit less severely than in the previous year.

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

In brief, the results of 2016 can be summarized as follows:

- Revenues from sales amounted to Euro 189.3 million, an increase of 9.5% with respect to 2015.
- Gross operating profit was equal to Euro 14.0 million (Euro 7.9 million in 2015).
- There was a net operating profit of Euro 2.5 million (loss of Euro 3.6 million in 2015).
- Profit for the year was Euro 3.3 million (loss of Euro 1.1 million in 2015).

2016 fully confirmed the recovery, in both turnover and profit, of which there had been signs in the previous two years.

For the second consecutive year, we managed to achieve a growth in turnover of around 10%; this significant result is attributable to the commercial development carried out both in areas where Panariagroup traditionally has a presence (with particular reference to the European markets) and in expansion activities in more distant markets (Asia and Oceania) and alternative sales channels.

The improvement in commercial performance is attributable in large part to the radical reorganisation activities that were undertaken and that are now at an advanced stage of implementation.

The positive trend in turnover also generated clear effects in terms of profitability, with an increase in Gross Operating Profit (Euro 6.1 million) and Net Operating Profit (Euro 6.1 million) and an overall Net Result of Euro 4.4 million.

Significant events in the period

The activities aimed at reorganising sales networks, implementing new distribution channels and repositioning brands continued and are scheduled to be concluded over the course of 2017.

The path taken has already entailed important changes, generating the first significant positive effects, and we predict that over the course of 2017 these interventions will appreciably improve all aspects of the organisation's efficacy.

In line with our commitment to being a leading ceramics company for technological innovation, 2016 was also marked by important changes from an industrial point of view.

Of particular note was the launch, at the Fiorano Modenese factory, of production activities for the third line of Laminated Stoneware; a new, more modern installation with greater production capacity was added to the two previous ones, which will provide significant advantages in terms of overall efficiency and productivity.

In addition, in order to expand the finishing of products in Laminated Stoneware, a new line was launched for polishing slabs.

The new arrangement at the factory allows us to fully satisfy new market trends, which show a significant development of Laminated Stoneware products with a polished surface and those with a structured surface.

At the Finale Emilia and Toano factories, investments have been made aimed mainly at expanding the production ranges (large formats) and increasing efficiency of production.

At the Finale Emilia site, work has finished with regard to the seismic retrofitting of warehouses and installations as set out in the Plan presented to the Emilia Romagna Region, and in relation to the requests for public contributions to help those affected by the earthquake in 2012.

Finally, in the course of 2015, the project was launched to integrate the information systems of all of the Group's Business Units through the adoption of a single platform (SAP). In 2016, activities to implement the American Business Unit (Florida Tile, Panariagroup USA and Lea North America) continued, culminating in the new software starting to be used in January 2017.

The development programme now envisages gradual expansion of SAP system to the Portuguese and Italian Business Units, to be implemented over the 2017-2018 two-year period.

The project is part of Panariagroup's internationalisation strategy; the integration of information systems will enable the improvement of all main processes in line with best practice and will ensure standardised management in all the companies of the Group, Italian and foreign, simplifying interactions between the different Business Units and facilitating any future expansion projects for foreign lines.

Review of the Company's 2016 results

Income statement at 31 December 2016 compared with 31 December 2015

(in thousand of Euro)

	31-Dec-2016	%	31-Dec-2015	%	var.
Revenues from sales and services	189,273	93.62%	172,838	94.34%	16,435
Change in inventories of finished products	2,437	1.21%	1,484	0.81%	953
Other revenues	10,455	5.17%	8,889	4.85%	1,566
Value of Production	202,165	100.00%	183,211	100.00%	18,954
Raw, ancillary and consumable materials	(52,373)	-25.91%	(49,484)	-27.01%	(2,889)
Services, leases and rentals	(83,303)	-41.21%	(77,064)	-42.06%	(6,239)
Personnel costs	(50,830)	-25.14%	(47,062)	-25.69%	(3,768)
Other operating expenses	(1,674)	-0.83%	(1,743)	-0.95%	69
Cost of production	(188,180)	-93.08%	(175,354)	-95.71%	(12,826)
Gross operating profit	13,985	6.92%	7,857	4.29%	6,128
D&A expenses	(10,684)	-5.28%	(9,747)	-5.32%	(937)
Provisions from unexpected events	(787)	-0.39%	(1,711)	-0.93%	924
Net operating profit	2,515	1.24%	(3,601)	-1.97%	6,116
Financial income and expense	1,444	0.71%	2,922	1.59%	(1,478)
Pre-tax profit	3,959	1.96%	(679)	-0.37%	4,638
Income taxes estimated	(620)	-0.31%	(424)	-0.23%	(196)
Net profit (loss) for the period	3,339	1.65%	(1,103)	-0.60%	4,442

Revenues

Net revenues from sales have overall increased by **9.5%** in comparison to 2015, with higher revenues of Euro 16.4 million, of which Euro 14.2 million came from growth in the sales networks and Euro 2.2 million from the positive change in intercompany sales.

Sales through the Sales Networks - Major markets of reference

For the second year running, sales through the Sales Networks grew by 9% overall compared with the previous year, as a result in particular of the excellent performances in the European, Asian and Oceania markets.

The results on the **European markets** were excellent, with overall growth of 19% thanks in large part to initiatives aimed particularly at specific distribution channels. The areas with the biggest growth were Germany, Austria, Holland, Spain and Eastern Europe.

The European market share represents 44% of total sales (40% in 2015).

Our Company's sales on the **Italian market** are slightly on the up; despite the moderately hopeful signs for the ceramic sector, there are no indications at present of significant change in relation to the current situation.

The Italian market impact represents 36% of total sales (impact of 40% in 2015).

The **Asian market** recorded a significant growth of 18%; in particular there was a strong increase in sales in the Middle East, but the Far East also showed a good level of growth.

The Asian market share represents 13% of total sales (12% in 2015).

On **other markets (America, Oceania and Africa)**, trends were varied, with significant growth in Oceania, turnover substantially unchanged on African markets and a fall in the Americas.

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

The “other markets” share represents 7% of total sales (8% in 2015).

Performance of the Sales Divisions

In general, we observe that all Sales Divisions were able to benefit from the reorganisation activities, which were aimed at a better and more effective market presence.

The Brand Divisions (Panaria, Lea, Cotto d'Este) taken together achieved a growth in turnover compared with the previous year, with the Lea Division in particular standing out.

The multi-Brand Panariagroup Trade organisation, which operates on the Asian, Oceania and Eastern European markets, once again confirmed its capacity to obtain significant market shares, with excellent results in all areas where it is present.

The Private Label (Third-Party) Division achieved significant growth in sales volumes, with particularly satisfying results on foreign markets. The technical and aesthetic excellence of our factories' products makes us, in this sector, a producer especially sought after by clients with demanding requirements in terms of quality and reliability.

Operating results

Gross operating profit came to Euro 14.0 million, representing 6.9% of the value of production (Euro 7.9 million, 4.3%, in 2015), with an increase of Euro 6.1 million.

The improvement in operating profit resulted mainly from the growth in sales volumes and from the significant reduction in production costs.

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

Production costs benefited significantly from the larger volumes produced, and from achieving a high degree of use of installation capacity, with consequently a reduced impact of fixed production costs on the unit cost.

In addition we benefited from a reduction in energy rates, one of the biggest factors in production costs for our sector, which is not called "*energivore*" for nothing.

Although we are in a phase of expansion, suitable control was maintained with regard to overheads, which, growing overall to a lesser extent than the value of production, resulted in a fall in their impact, with a positive effect on gross operating profit.

Net operating profit amounted to a positive Euro 2.5 million (versus negative Euro 3.6 million in 2015), with a Euro 6.1 million improvement.

Amortisations were up Euro 0.9 million compared with 2015, as a result of the significant investments made in the last two years, but with no change in their impact on the value of production, a little over 5%.

The allocations, amounting to Euro 0.8 million, reflect the prudent assessment of the related financial statements items.

Financial expenses and income amounted to a positive Euro 1.4 million, mainly due to:
The positive components particularly worthy of note are:

- the dollar appreciation over the Euro, which generated exchange gains for Euro 0.8 million;
- dividend distribution from the controlled company Gres Panaria Portugal for Euro 2.0 million (in line with 2015).

Net of these effects, financial expenses totalled Euro 1.4 million, with a reduced impact on the value of production, equal to 0.7%.

Earnings before taxes amounted to a positive Euro 4.0 million (versus negative Euro 0.7 million in 2015).

Net profit amounted to Euro 3.3 million (versus loss of Euro 1.1 million in 2015), with a Euro 4.4 million improvement.

Review of the balance sheet

Financial position

(in thousands of Euro)

	31-Dec-2016	31-Dec-2015
Inventories	71,931	69,070
Accounts Receivable	70,971	61,286
Other current assets	10,235	7,779
CURRENT ASSETS	153,137	138,135
Account Payables	(48,410)	(46,468)
Other current liabilities	(22,524)	(19,649)
CURRENT LIABILITIES	(70,934)	(66,117)
NET WORKING CAPITAL	82,203	72,018
Goodwill	0	0
Intangible assets	5,155	1,995
Tangible assets	43,120	43,956
Equity Investments and other financial assets	89,897	90,047
FIXED ASSETS	138,172	135,998
Receivables due after following year	5,795	9,611
Provision for termination benefits	(5,818)	(5,756)
Provision for risk and charge	3,367	4,421
Other payables due after the year	(2,336)	(3,654)
ASSET AND LIABILITIES DUE AFTER THE YEAR	1,008	4,622
NET CAPITAL EMPLOYED	221,383	212,638

Short term financial assets	(9,948)	(5,475)
Short term financial debt	28,258	30,745
NET SHORT TERM FINACIAL DEBT	18,310	25,270
Mid-Long term financial debt	57,452	44,555
NET FINANCIAL POSITION	75,762	69,825
Group Shareholders' Equity	145,621	142,813
SHAREHOLDERS' EQUITY	145,621	142,813
TOTAL SOURCES OF FOUNDS	221,383	212,638

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

Net working capital

In 2015, the policy of monitoring and containment of Net Working Capital continued; in particular, the inventory value increased by 4% against a 9% increase in revenues, with improvement of the turnover rate.

Trends for receivables are influenced by the dynamics of intercompany balances, which grew compared with 2015, while, with regard to trade receivables we observed results substantially in line with the previous year, with an improvement in the “average days of collection” index. Trade payables increased to a lesser extent than turnover.

We will continue to work to improve this important aspect of the balance sheet.

Non-current assets

The level of tangible and intangible non-current assets grew overall by Euro 2.3 million in 2016.

The change was due to making sizeable investments (Euro 13.0 million) higher than depreciation (Euro 10.7 million). The main investments in the year have been commented on in the “Significant events” section.

Net financial position

Financial cash flow

(thousands euro)

	31-Dec-2016	31-Dec-2015
Net financial position (debt) - beginning	(69,825)	(68,101)
Net Result for the period	3,339	(1,103)
D & A	10,684	9,747
Non-monetary changes	1,682	1,277
Internal operating Cash flow	15,705	9,921
Change in net working capital and other mid-long term financial asset/debt	(10,268)	1,068
Net Investments	(13,357)	(16,782)
Changes in Equity	(531)	249
Change in loans to Subsidiaries	2,514	3,820
Net financial position (debt) - final	(75,762)	(69,825)

The net financial position suffered a negative change of around Euro 6 million.

The improvement in operating self-funding was more than offset by the increase in intercompany receivables and the significant level of investments.

We also observe that the Group took out over the course of the year Euro 37.5 million in medium-to-long-term loans, at favourable interest rates.

We believe that in 2017 we can achieve an improvement in the Net Financial Position / Gross Operating Profit ratio, and we confirm that for the management, financial balance is one of the primary goals for operations next year.

Equity

Equity decreased from Euro 142.8 million in 2015 to Euro 145.6 million currently, mainly due to the net profit for the year.

Segment information

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

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

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

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

- The breakdown of revenues by principal geographical area is presented in the earlier section on “Revenues”.

- The breakdown of total assets by geographical location is shown below:

PANARIAGROUP

<u>ASSETS</u>	Italy	Europe	USA	Other	31-Dec-2016
CURRENT ASSETS	119,015	15,285	19,519	9,265	163,084
Inventories	71,931				71,931
Trade Receivables	28,027	14,160	19,519	9,265	70,971
Due from tax authorities	4,751				4,751
Other current assets	4,358	1,125			5,483
Cash and cash equivalents	9,948				9,948
NON-CURRENT ASSETS	58,209	44,473	49,765	70	152,517
Goodwill	0				0
Intangible assets	5,155				5,155
Property, plant and equipment	43,120				43,120
Financial assets	500	42,598	46,729	70	89,897
Deferred tax assets	8,550				8,550
Other non-current assets	884	1,875	3,036		5,795
TOTAL ASSETS	177,224	59,758	69,284	9,335	315,601
Net investments in assets 2016	13,008				13,008

Research and development activities

Research and development activities, a distinguishing feature of our Company 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.

Transactions with subsidiaries

As at 31 December 2016 the companies controlled by Panariagroup are:

- **Gres Panaria Portugal S.A.**, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.
- **Panariagroup USA Inc.**, based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. Set up as a financial holding company for the United States area, it owns 100% interests in Florida Tile Inc. and Lea North America LLC.
- **Lea North America LLC.**, with head office in Delaware, USA, and share capital of USD 20,000 fully paid-in
- **Florida Tile Inc.**, with head office in Delaware, USA and share capital of USD 34,000,000 fully paid-in
- **Montanari Ceramiche S.r.l.**, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% controlled by Panariagroup Industrie Ceramiche S.p.A.

The investee companies realized the following results in 2016:

- Gres Panaria Portugal S.A. realized a net turnover of Euro 67.9 million and reported a profit of Euro 4.3 million after depreciation and amortisation, provisions and taxes for Euro 5.5 million; total assets of the Portuguese subsidiary amount to Euro 70.8 million and equity, including the 2016 profit, is Euro 39.2 million.
- The subsidiary Panariagroup USA realized a net turnover of USD 8.2 million, with a loss of USD 0.1 million after depreciation and amortisation, provisions and taxes for

USD 0.1 million; total assets of the company amount to USD 103.0 million and equity, including the 2016 loss, is USD 77.7 million.

- The subsidiary Lea North America realized a net turnover of USD 10.7 million and made a profit of USD 0.6 million after depreciation and amortisation, provisions and taxes for USD 0.6 million; total assets of the US subsidiary amount to USD 13.6 million and equity, including the 2016 profit, is USD 6.2 million.
- The subsidiary Florida Tile Inc. realized a net turnover of USD 145.3 million and realized a profit of USD 6.3 million after depreciation and amortisation, provisions and taxes for USD 10.0 million; total assets of the US subsidiary amount to USD 125.7 million and equity, including the 2016 profit, is USD 20.0 million.
- The subsidiary Montanari Ceramiche S.r.l. realized a net turnover of Euro 1.6 million and realized a net loss of Euro 71 thousand; the sum of depreciation and amortisation, allocations and taxes is equal to Euro 116 thousand. Total assets amount to Euro 1,258 thousand and equity, including the 2016 loss, is Euro 52 thousand.

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

<i>Nature</i>	<i>Description</i>	<i>GPP</i>	<i>PGU</i>	<i>FTI</i>	<i>LNA</i>	<i>MON</i>
<i>Income Statement - Revenues</i>	<i>Sale of Finished Products</i>	5,090	1,772	2,907	5,298	239
<i>Income Statement - Revenues</i>	<i>Sale of Raw Materials</i>					
<i>Income Statement - Revenues</i>	<i>Services</i>	1,208	199	1,621	290	10
<i>Income Statement - Revenues</i>	<i>Sale of intangible assets</i>			531		
<i>Income Statement - Costs</i>	<i>Purchase of finished products</i>	5,702				2
<i>Income Statement - Costs</i>	<i>Services</i>					-
<i>Income Statement - Costs</i>	<i>Chargeback of costs</i>	306		9		
<i>Income Statement - Income</i>	<i>Interest on loans</i>	18		167		1
<i>Income Statement - Income</i>	<i>Dividends</i>	1,980				
<i>Balance Sheet - Liabilities</i>	<i>Liabilities</i>	1,717		11		3
<i>Balance Sheet - Receivables</i>	<i>Receivables</i>	2,892	2,601	11,278	5,420	156
<i>Balance Sheet - Receivables</i>	<i>Receivables for Dividends</i>					
<i>Balance Sheet - Receivables</i>	<i>Loans</i>	3,000		3,036		550

Legend

GPP = Gres Panaria Portugal

PGU = Panariagroup USA

FTI = Florida Tile

LNA = Lea North America

MON = Montanari Ceramiche

Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 28 April 2016, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2016:

Treasury shares

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

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. 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.

Privacy policy

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

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

Significant subsequent events

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

Outlook for operations

The improvement in results achieved in 2016, continuing the trend already observed in 2015, confirms that the right choices were made in recent years and that the radical reorganisation actions implemented by Panariagroup in all corporate areas have been effective.

The outlook for 2017 is positive, in terms of both turnover and profitability.

On the Revenues side, the outlook is for further growth, both regarding the overall macroeconomic picture and its upward trend, and regarding the expected effects of the commercial development programmes implemented, which should become even more visible.

With regard to production costs, some important benefits are expected.

Firstly, the 2017 Budget sets out a even more intense use of installations, bringing factories close to full production capacity levels and consequently reducing the impact of fixed costs.

Secondly, the full implementation of the significant industrial investments made in the last two years, in particular at the Fiorano Modenese factory, dedicated to laminated stoneware, will enable us to benefit from significant advantages in terms of efficiency and productivity.

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

The current organisation of Panariagroup, characterised by a solid economic and financial base, a competitive and cutting-edge industrial setup and a well-defined and balanced strategic and geographical positioning, place us in the perfect conditions to be able to develop, over the course of 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 Company's exposure to credit and liquidity risk is analysed in the explanatory notes accompanying these financial statements, which include the information required by IFRS 7.

RISK OF DEPENDENCE ON KEY PERSONNEL

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

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

MARKET RISK

Competition risk:

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

Raw material price risk:

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

Brexit risk:

The result of the UK referendum on leaving the European Union (so-called “Brexit”) could have an impact on consumption of ceramics and on import flows.

In this regard, note that for 2016, Panariagroup's turnover in relation to the UK was Euro 3.4 million (around 1.8% of total turnover) and therefore any changes, even if significant, in turnover for this area would not have a significant economic and financial impact.

Environmental protection, personnel costs and regulations relating to the sector

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

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

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

The average workforce in 2016 was equal to 787 individuals, a decrease of 2 employees compared with the average number in 2015.

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 31-December-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-Dec-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 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 officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Leg. Decree 38/2005.

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

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

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

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

Allocation of the net result

We propose to Shareholders' Meeting to distribute the profit for the year as follows:

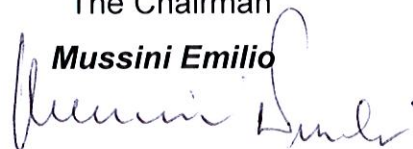
- 5% of net profit to legal reserve;
- payment of a dividend equal to 0.07 Euros per share, gross of tax retentions, excluding treasury shares held at the date the dividends are paid;
- the remainder to the Extraordinary Reserve.

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

Sassuolo 17 March 2017

The Chairman

Mussini Emilio



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

STATO PATRIMONIALE IFRS			STATO PATRIMONIALE RICLASSIFICATO		
ASSETS	31-Dec-2016	RIF		31-Dec-2016	RIF
CURRENT ASSETS	163,085		Inventories	71,931	(A)
Inventories	71,931	(A)	Trade Receivable	70,971	(B)
Trade Receivables	70,971	(B)	Other current assets	10,235	(C)+(D)
Due from tax authorities	4,751	(C)	CURRENT ASSETS	153,137	
Other current assets	5,484	(D)	Trade Payables	(48,410)	(N)
Cash and cash equivalents	9,948	(E)	Other current liabilities	(22,524)	(O) + (P)
NON-CURRENT ASSETS	152,516		CURRENT LIABILITIES	(70,934)	
Goodwill	-	(F)	NET WORKING CAPITAL	82,203	
Intangible assets	5,155	(G)	Goodwill	0	(F)
Property, plant and equipment	43,120	(H)	Intangible assets	5,155	(G)
Financial assets	89,897	(I)	Property, plant and equipment	43,120	(H)
Deferred tax assets	8,550	(J)	Equity Investments and other financial assets	89,897	(I)
Other non-current assets	5,795	(L)	FIXED ASSETS	138,172	
TOTAL ASSETS	315,601		Receivables due beyond 12 months	5,795	(L)
LIABILITIES AND EQUITY	31/12/2016		Employee severance indemnities	(5,818)	(Q)
CURRENT LIABILITIES	99,192		Provision for risk and charge and deferred taxes	3,367	(R)+(S)+(J)
Due to banks and other sources of finance	28,258	(M)	Other liabilities due beyond 12 months	(2,336)	(U)
Trade payables	48,410	(N)	ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	1,008	
Due to tax authorities	2,379	(O)	NET CAPITAL EMPLOYED	221,383	
Other current liabilities	20,145	(P)	Short term financial assets	(9,948)	(E)
NON-CURRENT LIABILITIES	70,788		Short term financial indebtedness	28,258	(M)
Employee severance indemnities	5,818	(Q)	NET SHORT TERM FINACIAL INDEBTEDNESS	18,310	
Deferred tax liabilities	1,280	(R)	Mid-Long term financial debt	57,452	(T)
Provisions for risks and charges	3,903	(S)	NET FINANCIAL POSITION	75,762	
Due to banks and other sources of finance	57,452	(T)	Equity	145,621	(V)+(W)+(X)
Other non-current liabilities	2,336	(U)	EQUITY	145,621	
TOTAL LIABILITIES	169,980		TOTAL SOURCES OF FOUNDS	221,383	
EQUITY	145,621				
Share capital	22,678	(V)			
Reserves	119,604	(W)			
Net profit (loss) for the year	3,339	(X)			
TOTAL LIABILITIES AND EQUITY	315,601				

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	143,610	
Inventories	69,070	(A)
Trade Receivables	61,286	(B)
Due from tax authorities	3,875	(C)
Other current assets	3,904	(D)
Cash and cash equivalents	5,475	(E)
NON-CURRENT ASSETS	155,681	
Goodwill	-	(F)
Intangible assets	1,995	(G)
Property, plant and equipment	43,956	(H)
Financial assets	90,047	(I)
Deferred tax assets	10,072	(J)
Other non-current assets	9,611	(L)
TOTAL ASSETS	299,291	

LIABILITIES AND EQUITY	31-Dec-2015	
CURRENT LIABILITIES	96,862	
Due to banks and other sources of finance	30,745	(M)
Trade payables	46,468	(N)
Due to tax authorities	2,372	(O)
Other current liabilities	17,277	(P)
NON-CURRENT LIABILITIES	59,616	
Employee severance indemnities	5,756	(Q)
Deferred tax liabilities	1,909	(R)
Provisions for risks and charges	3,742	(S)
Due to banks and other sources of finance	44,555	(T)
Other non-current liabilities	3,654	(U)
TOTAL LIABILITIES	156,478	
EQUITY	142,813	
Share capital	22,678	(V)
Reserves	121,238	(W)
Net profit (loss) for the year	- 1,103	(X)
TOTAL LIABILITIES AND EQUITY	299,291	

RECLASSIFIED FINANCIAL POSITION

	31-Dec-2015	RIF
Inventories	69,070	(A)
Trade Receivable	61,286	(B)
Other current assets	7,779	(C)+(D)
CURRENT ASSETS	138,135	
Trade Payables	(46,468)	(N)
Other current liabilities	(19,649)	(O) + (P)
CURRENT LIABILITIES	(66,117)	
NET WORKING CAPITAL	72,018	
Goodwill	0	(F)
Intangible assets	1,995	(G)
Property, plant and equipment	43,956	(H)
Equity Investments and other financial assets	90,047	(I)
FIXED ASSETS	135,998	
Receivables due beyond 12 months	9,611	(L)
Employee severance indemnities	(5,756)	(Q)
Provision for risk and charge and deferred taxes	4,421	(R)+(S)+(J)
Other liabilities due beyond 12 months	(3,654)	(U)
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	4,622	
NET CAPITAL EMPLOYED	212,638	
Short term financial assets	(5,475)	(E)
Short term financial indebtedness	30,745	(M)
NET SHORT TERM FINANCIAL INDEBTEDNESS	25,270	
Mid-Long term financial debt	44,555	(T)
NET FINANCIAL POSITION	69,825	
Equity	142,813	(V)+(W)+(X)
EQUITY	142,813	
TOTAL SOURCES OF FUNDS	212,638	

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 and equivalents.

	31-Dec-2016	
	Securities	-
(1)	Cash and cash equivalents	(9,948)
	Short-term financial assets	(9,948)
(2)	Due to banks	8,185
	Current portion of long-term loans	20,073
	Leases	-
	Short-term financial indebtedness	28,258
	Non-current portion of long-term loans	57,452
	Leases	-
	Long-term financial indebtedness	57,452
(2)	Net financial indebtedness	75,762
(1)	Cash and cash equivalents	(9,948) = (X)
	(as reported in IFRS cash flow statement)	
(2)	Total net financial position	75,762 = (Z)
	(as reported in summary of cash flow contained in the Directors' Report)	

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

	31 dec	
(in thousands of euro)	2016	
A - ATTIVITA' OPERATIVA		
Net Results of the period	3,339	A
Amortisation and impairment	10,684	B
Perdite (Utili) su cessioni immobilizzazioni	142	C
Deferred tax liabilities (assets)	893	C
Net change in the provision for severance indemnities	484	C
Net change in provisions	(194)	C
Investments depreciation	357	C
<i>Cash flow (absorption) from operations prior to changes in working capital</i>	<i>15,705</i>	
(Increase)/Decrease in trade receivables	(9,329)	
(Increase)/Decrease in inventories	(2,861)	
(Increase)/Decrease in trade payables	1,942	
Employee severance indemnity disbursement	(422)	
Net change in other current assets/liabilities	402	
<i>Flusso (assorbimento) di cassa dell'attività operativa per variazioni del capitale circolante</i>	<i>(10,268)</i>	D
TOTAL (A) CASH FLOW FROM OPERATIONS	5,437	
B - INVESTMENT ACTIVITY		
Investment in tangible assets	(10,260)	F
Investment in intangible assets	(3,465)	F
Investment in financials assets	(207)	E
Sales of tangible fixed assets	575	F
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	(13,357)	
C - FINANCING ACTIVITY		
Other changes in equity	(531)	H
Net change in financial payables (excluding the new non-current loans received)	(2,465)	
New loans	37,500	
Loan repayments	(24,625)	
Net change in intercompany loans	2,514	G
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	12,393	
Opening net cash (indebtedness)	5,475	
Net change in short-term net cash (indebtedness) (A+B+C)	4,473	
Closing net cash (indebtedness)	9,948	(X)

Financial cash flow
(thousands euro)

	31-Dec-2016	
Net financial position (debt) - beginning	(69,825)	
Net Result for the period	3,339	A
D & A	10,684	B
Non monetary changes	1,682	C
Internal operating Cash flow	15,705	
Changes in net working capital	(10,268)	D
Changes in Equity Investments	(207)	E
Net investments	(13,150)	F
Changes in intercompany loans	2,514	G
Changes in Equity	(531)	H
Net financial position (debt) - final	(75,762)	(Z)

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

FINANCIAL STATEMENTS

PANARIAGROUP Industrie Ceramiche S.p.A.

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

Rif	ASSETS	31-Dec-2016	31-Dec-2015
	CURRENT ASSETS	163,084,615	143,611,222
1.a	Inventories	71,930,691	69,070,454
1.b	Trade Receivables	70,971,379	61,286,729
1.c	Due from tax authorities	4,750,606	3,874,663
1.d	Other current assets	5,483,614	3,904,336
1.e	Cash and cash equivalents	9,948,325	5,475,040
	NON-CURRENT ASSETS	152,516,250	155,679,916
2.a	Intangible assets	5,154,539	1,994,533
2.b	Property, plant and equipment	43,120,493	43,955,527
2.c	Financial assets	89,896,875	90,046,536
2.d	Deferred tax assets	8,549,664	10,072,163
2.e	Other non-current assets	5,794,678	9,611,157
	TOTAL ASSETS	315,600,864	299,291,138
	LIABILITIES	31-Dec-2016	31-Dec-2015
	CURRENT LIABILITIES	99,191,556	96,861,478
3.a	Due to banks and other sources of finance	28,258,270	30,745,069
3.b	Trade payables	48,409,678	46,467,587
3.c	Due to tax authorities	2,378,694	2,372,194
3.d	Other current liabilities	20,144,915	17,276,629
	NON-CURRENT LIABILITIES	70,788,307	59,616,937
4.a	Employee severance indemnities	5,817,909	5,756,114
4.b	Deferred tax liabilities	1,279,577	1,909,448
4.c	Provisions for risks and charges	3,903,269	3,742,121
4.d	Due to banks and other sources of finance	57,451,822	44,555,354
4.e	Other non-current liabilities	2,335,729	3,653,899
	TOTAL LIABILITIES	169,979,863	156,478,416
5	EQUITY	145,621,001	142,812,722
	Share capital	22,677,646	22,677,646
	Reserves	119,604,318	121,238,158
	Net profit for the year	3,339,038	(1,103,081)
	TOTAL LIABILITIES AND EQUITY	315,600,864	299,291,138

PANARIAGROUP Industrie Ceramiche S.p.A.

INCOME STATEMENT

(THOUSANDS OF EURO)

Rif		31-Dec-2016		31-Dec-2015	
6.a	REVENUES FROM SALES AND SERVICES	189,273,053	93.6%	172,837,845	94.3%
	Change in inventories of finished products	2,437,106	1.2%	1,483,565	0.8%
6.b	Other revenues	10,455,150	5.2%	8,889,350	4.9%
	VALUE OF PRODUCTION	202,165,310	100.0%	183,210,759	100.0%
7.a	Raw materials	(52,372,716)	-25.9%	(49,484,359)	-27.0%
7.b	Services, leases and rentals	(83,303,127)	-41.2%	(77,064,091)	-42.1%
	<i>of which, related party transactions</i>	(5,449,441)	-2.7%	(5,449,441)	-3.0%
7.c	Personel costs	(50,830,441)	-25.1%	(47,062,428)	-25.7%
7.d	Other operating expenses	(1,673,997)	-0.8%	(1,743,099)	-1.0%
	PRODUCTION COSTS	(188,180,281)	-93.1%	(175,353,978)	-95.7%
	GROSS OPERATING PROFIT	13,985,028	6.9%	7,856,782	4.3%
8.a	Amortisation and depreciation	(10,683,565)	-5.3%	(9,747,061)	-5.3%
8.b	Provisions and writedowns	(786,797)	-0.4%	(1,710,720)	-0.9%
	NET OPERATING PROFIT	2,514,666	1.2%	(3,601,000)	-2.0%
9.a	Financial income (expense)	1,444,288	0.7%	2,921,527	1.6%
	PRE-TAX PROFIT	3,958,954	2.0%	(679,473)	-0.4%
10.a	Income taxes	(619,917)	-0.3%	(423,609)	-0.2%
	<i>of which, new deferred tax rate adjustment</i>	–	0.0%	(1,013,998)	0.0%
	NET PROFIT	3,339,038	1.7%	(1,103,081)	-0.6%
	BASIC AND DILUTED EARNING PER SHARE	0.074		(0.024)	

PANARIAGROUP

STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31-Dec-2016	31-Dec-2015
NET PROFIT (LOSS) FOR THE PERIOD	3,339,038	(1,103,081)
Other components of comprehensive income that will be reclassified later to after-tax profit	(248,587)	(8,114)
Profit (loss) on interest rate hedging transactions accounted in accordance with the <i>Cash Flow Hedge</i> method	(290,050)	0
Profit (loss) on Joint Venture - accounted with Equity Method	41,463	(8,114)
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	(282,171)	258,131
(loss) Net Profit from revaluation of defined benefits and plans	(282,171)	258,131
RISULTATO DI PERIODO COMPLESSIVO	2,808,279	(853,065)

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.**FINANCIAL STATEMENT****CASH FLOW STATEMENT - IFRS**

(THOUSANDS OF EURO)

	December, 31	December, 31
(thousands of Euro)	2016	2015
A - OPERATIONS		
Net Results of the period	3,339	(1,103)
Depreciation and amortisation	10,684	9,747
Losses (gains) on fixed assets disposals	142	(148)
Deferred tax liabilities (assets)	893	1,366
Non-monetary change in provisions for employee severance indemnities	484	(247)
Net change in provisions	(194)	134
Investments depreciation	357	172
<i>Cash flow (absorption) from operations prior to changes in working capital</i>	<i>15,705</i>	<i>9,921</i>
(Increase)/Decrease in trade receivables	(9,329)	(8,476)
(Increase)/Decrease in inventories	(2,861)	(1,130)
(Increase)/Decrease in trade payables	1,942	9,633
Employee severance indemnity disbursement	(422)	(498)
Net change in other current assets/liabilities	402	1,539
<i>Flusso (assorbimento) di cassa dell'attività operativa per variazioni del capitale circolante</i>	<i>(10,268)</i>	<i>1,068</i>
TOTAL (A) CASH FLOW FROM OPERATIONS	5,437	10,989
B - INVESTMENT ACTIVITY		
Investment in tangible assets	(10,260)	(15,757)
Investment in intangible assets	(3,465)	(1,579)
Investment in financials assets	(207)	-
Sales of tangible fixed assets	575	554
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	(13,357)	(16,782)
C - FINANCING ACTIVITY		
Non-monetary changes recorded in equity	(531)	249
Net change in financial payables (excluding the new non-current loans received)	(2,465)	(851)
New loans	37,500	30,000
Loan repayments	(24,625)	(22,970)
Net change in intercompany loans	2,514	3,820
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	12,393	10,248
Cash and cash equivalents at beginning of the period	5,475	1,020
Net change in Cash and cash equivalents (A + B + C)	4,473	4,455
Cash and cash equivalents at end of period	9,948	5,475
Supplementary information		
Interests paid	719	748
Income taxes paid	127	480

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

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

	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Revaluation reserve</i>	<i>Legal reserve</i>	<i>Other reserves</i>	<i>Net profit (loss of the period)</i>	<i>Total equity</i>
(THOUSANDS OF EURO)							
<i>Balance as of 1 January 2015</i>	22,678	60,784	4,493	3,958	54,273	(2,520)	143,666
<i>Net result for the period</i>						(1,103)	(1,103)
<i>Other comprehensive profit (loss)</i>					250		250
<i>Total gains (losses) booked directly to equity</i>					250	(1,103)	(853)
<i>Allocation of net profit for year 2014</i>					(2,520)	2,520	
<i>Balance as of 31 December 2015</i>	22,678	60,784	4,493	3,958	52,003	(1,103)	142,813
<i>Balance as of 1 January 2016</i>	22,678	60,784	4,493	3,958	52,003	(1,103)	142,813
<i>Net result for the period</i>						3,339	3,339
<i>Other comprehensive profit (loss)</i>					(531)		(531)
<i>Total gains (losses) booked directly to equity</i>					(531)	3,339	2,808
<i>Allocation of net profit for year 2015</i>					(1,103)	1,103	
<i>Balance as of 31 December 2016</i>	22,678	60,784	4,493	3,958	50,369	3,339	145,621

PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES

INTRODUCTION

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

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

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

The financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Leg. Decree 38/2005. The term IFRS is understood as including all of the revised international accounting standards (IAS), and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

The accounting 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 financial statements include:

- the balance sheet as at 31 December 2016 compared with the 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 income statement for 2016, compared with that for 2015.

Note that, as decided on first-time adoption of the IFRS, the income statement shows the following interim results, not defined as an IFRS accounting measurement method, because the Company's management is of the opinion that they provide important information for an understanding of the results for the period:

- Gross Operating 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 year 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 on the face of the income statement, under costs or revenues, of any significant components of income and/or expense deriving from non-recurring events or transactions or arising from transactions or events that are not repeated frequently in the normal course of business.

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

The currency used to draw up the financial statements of Panariagroup Industrie Ceramiche S.p.A. for the period 1 January – 31 December 2016 is the Euro.

The financial statements, has been approved by the Board of Directors on 17 March 2017.

1) ACCOUNTING PRINCIPLES

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 regarding going concern, 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.

Panariagroup 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 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. Panariagroup 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. Panariagroup 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.

Intangible assets

Intangible assets consist of non-monetary elements, without any physical substance, that are clearly identifiable and able to generate future economic benefits. Such elements are booked at purchase or production cost, including directly attributable expenses incurred to permit the asset to be used, net of accumulated amortisation and any impairment losses. Amortisation begins when the asset is available for use and is charged systematically over its estimated useful life.

Bought-in software licences are capitalised on the basis of the costs incurred for their purchase and to bring them into use. Amortisation is calculated on a straight-line basis over their estimated useful life.

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

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

Internally generated intangible assets - research and development costs

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

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

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

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

When internally generated assets cannot be recorded in the financial statements, the development costs are charged to the income statement in the period in which they are incurred.

Trademarks and patents

Patents and trademarks are initially booked at purchase cost and amortised on a straight-line basis over their useful lives; in the absence of specific indications, for trademarks a useful life of 10 years is considered.

Property, plant and equipment

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

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

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

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.

Equity investments in subsidiaries

Equity investments in subsidiaries are measured at historical cost.

Equity investments in jointly controlled entities

These are entities over which the Group has contractually agreed sharing of control, or where there are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

Equity investments in jointly controlled entities are accounted for under the equity method. As at 31 December 2016, the Group held a joint venture company (JVC). This equity investment, was valued in the Financial Statements for the year ended 31 December 2016 according to the equity method, using the last set of approved financial statements of the investee company as a reference.

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

Impairment losses

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

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

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

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

Leases

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

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

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

Inventories

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

Trade receivables

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

Financial assets

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

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

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

Cash and cash equivalents

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

Derivatives

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

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

Provisions

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

Post-employment benefits

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

For defined-benefit plans, the cost of the benefits provided is calculated by performing actuarial valuations at the end of each financial period. Liabilities for post-employment

benefits shown in the balance sheet consist of the present value of the liabilities for defined-benefit plans adjusted to take account of the actuarial gains and losses that have not yet been recognised and of any past service costs that have not yet been recognised. Any net assets resulting from this calculation are limited to the value of the actuarial losses not yet recognised and to past service costs that have not yet been recognised, plus the net present value of any reimbursements and reductions in future contributions to the plan.

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

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

Trade payables

Trade payables are booked at their face value.

Financial liabilities

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 and 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

Transactions in currencies other than the euro are initially booked at the exchange rates valid 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 on the date on which the fair values were determined. Exchange differences arising on the settlement of monetary items and their re-measurement at year-end exchange rates are booked to the income statement for the period, except for exchange differences on non-monetary assets expressed at fair value, for which changes in fair value are booked directly to equity, like for the exchange element.

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

Government grants

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

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

Income taxes

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

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

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

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

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to allow all or part of such assets to be recovered.

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

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

Deferred taxes are booked directly to the income statement, except for those relating to items booked directly to equity, in which case the related deferred taxes are also booked to equity.

Significant accounting policies based on the use of estimates

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

Financial assets – Estimate of the degree of recoverability

The price paid by the Company for corporate acquisitions reflects a goodwill element. Financial assets are tested at least once a year for impairment, in accordance with the provisions of IAS 36, based on forecasts of expected cash flows over coming years. If the future scenarios for the Company and the market turn out to be different from those

assumed when developing the forecasts, the value of financial assets may have to be written down.

Inventory valuation and provision for slow-moving and obsolete goods

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

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 Company evaluates the likelihood of receivables being collected based on the solvency of each debtor. The quality of these estimates depends on the availability of up-to-date information on debtors' solvency. If the solvency of debtors were to decline due to the difficult economic environment in certain markets where the Group operates, the value of trade receivables could be subject to additional write-downs.

Deferred tax assets

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

Contingent liabilities

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

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

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

Related parties

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

Financial risks and derivatives

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

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

a) Exchange rate risk

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

Exchange rate risk mainly arises from the sale of finished products to the US market.

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

b) Credit risk

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

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

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

c) Interest rate risk

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

The Company's exposure is mainly to floating-rate debt.

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

d) Liquidity risk

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

The Company's objective is to ensure that it can fulfil all of its financial obligations at any moment in time, optimising its recourse to external financing. The Company maintains a

certain number of lines of credit (see section 3.a “Due to banks and other sources of finance”) in order to take advantage of unforeseen business opportunities which may arise or for unforeseen payments, in addition to commitments arising from planned capital expenditure.

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

See the comments in section 4.d “Due to banks and other sources of finance” for information regarding the maturities of financial liability contracts.

2) OTHER INFORMATION

Presentation of the explanatory notes

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

3) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

1. CURRENT ASSETS

1.a. Inventories

At 31 December 2016, this caption comprises:

	31-Dec-2016	31-Dec-2015
Raw, ancillary and consumable materials	6,558	6,297
Work in progress	1,649	1,471
Finished products	67,977	65,773
Provision for obsolescence	(6,276)	(6,276)
Total finished products and raw materials	69,908	67,265
Buildings held for sale	2,674	2,340
Provision for depreciation: buildings held for sale	(651)	(535)
Total buildings held for sale	2,023	1,805
	71,931	69,070

The overall value of inventories rose (+2.9 million, approximately 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 Company'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 6,276 thousand at 31 December 2016, 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

Trade receivables are made up as follows:

	31-Dec-2016	31-Dec-2015
Receivables due from third parties	49,730	50,900
Receivables due from subsidiaries	22,346	11,776
Receivables due from related parties	0	32
Due from parent companies	0	39
Provision for bad and doubtful accounts	(1,105)	(1,460)
	70,971	61,287

Trade receivables due from third parties went down by 2.3%, against the growth in turnover recorded in the period. This result is mainly due to the sales mix, more favourable under this profile, concentrated largely on foreign markets where the extended payment terms granted are much shorter than those practiced on the Italian market.

Receivables due from subsidiaries primarily relate to transactions of a commercial nature (sales of tiles) with Gres Panaria Portugal, Florida Tile, Panariagroup USA and Lea North America. It should be noted that these transactions account for only 8.1% of the Company's total turnover.

The increase in these receivables compared to 2015 was influenced by 3 key factors:

- increase in sales to Group companies;
- appreciation of the USD against the Euro;
- receivables for chargebacks to subsidiaries in relation to the SAP project; the invoices relating to implementation costs for the new management system were mainly channelled, in fact, to the Parent Company, which at year end arranged invoicing to the other Group companies of their respective shares.

The item "Receivables due from third parties" includes around Euro 2.6 million in receivables past due by more than 120 days (equal to roughly 3.7% of total receivables); the provision for bad and doubtful accounts, amounting to Euro 1.1 million, reflects an economic estimate of the recoverable value of total receivables, based on the information available at the time of preparing the financial statements.

During the year, the Company did not factor any of its receivables.

1.c. Due from tax authorities

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

	31-Dec-2016	31-Dec-2015
VAT receivable	2,614	1,306
Income tax receivable	131	556
IRES receivables on 07/11 IRAP deductibility	1,729	1,729
Other tax receivables	277	285
	4,751	3,875

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

The item "Income tax receivable" as at 31 December 2016 mainly refers to receivables from withholding taxes applied.

The item "IRES receivables on 07/11 IRAP deductibility" refers to the IRES on which a refund was requested due to IRAP deductibility in the years 2007-2011 (art. 2, 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-2016	31-Dec-2015
Advances to social security institutions	102	98
Advances to suppliers	81	150
Rebates from suppliers and credit notes to be received	560	252
Receivables due from employees and third parties	216	203
Earthquake grants receivable	320	310
Other grants receivable	169	232
Insurance payouts receivable	126	56
Receivables due from energy income	1,900	1,625
Financial derivatives – positive fair value	0	167
Other	249	231
Total other current receivables	3,723	3,324
Total current financial receivables	1,125	0
Intercompany loans receivable		
Total current accrued income and prepaid expenses	636	580
	5,484	3,904

The line “Earthquake grants receivable” refers to the amount not yet collected in relation to the claims presented to (and accepted by) the Emilia Romagna Region for damages suffered to plants and buildings, as well as to relocation expenses 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.

“Financial receivables” refer to the portion repayable by 31 December 2017 of the total loan of Euro 3,000 thousand, disbursed on 30 March 2016 to the subsidiary Gres Panaria Portugal.

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-2016	31-Dec-2015
Bank and post office deposits	9,941	5,469
Cheques	-	-
Cash and equivalents on hand	7	6
	9,948	5,475

The changes in financial position during 2016, compared with 2015, are shown in the Cash Flow Statement contained in the section relating to the financial statements.

NON-CURRENT ASSETS

2.a Intangible assets

"Intangible assets" at 31 December 2016 amount to Euro 5,155 thousand, considerably higher than the figure of Euro 1,995 thousand reported at 31 December 2015.

Changes during the year can be summarised as follows:

	2016	2015
Beginning Balance	1,995	746
Additions	3,465	1,479
Reclassifications from PPE	-	100
Retirements	-	-
Amortisation charge	(305)	(330)
Ending Balance	5,155	1,995

The increases of the year mostly refer to software acquisitions and development tied to 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 year are reported in attachment 2 to these notes.

2.b Property, plant and equipment

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

	31-Dec-2016	31-Dec-2015
Land and buildings	-	676
Plant and machinery	35,429	30,060
Equipment and other assets	7,612	6,571
Construction in progress	79	6,649
	43,120	43,956

Changes during the year can be summarised as follows:

	2016	2015
Beginning Balance	43,956	38,022
Additions	10,260	15,857
Retirements	(717)	(406)
Amortisation charge	(10,379)	(9,417)
Reclassifications to intang. assets	-	(100)
Ending Balance	43,120	43,956

The changes for the year are reported in an attachment.

Investments during the year were of an industrial nature with breakdown as follows:

- Euro 1.1 million for investments in the "Mixing" departments
- Euro 1.1 million for investments in the "Press lines" departments
- Euro 1.1 million for investments in the "Glazing" departments
- Euro 0.8 million for investments in the "Furnaces" departments
- Euro 1.1 million for investments in the "Selection" departments
- Euro 0.4 million for investments in the "Cutting and rectification" departments
- Euro 2.3 million for upgrading of "Buildings"
- Euro 0.8 million for investments in "Equipment and other assets"
- Euro 1.6 million for investments in generic plants

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

2.c Financial assets

At 31 December 2016, the breakdown of financial assets was as follows:

	31-Dec-2016	31-Dec-2015
Equity investments in subsidiaries	89,822	89,862
Investment in Indian JV	70	180
Other equity investments	5	5
	89,897	90,047

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

	31-Dec-2016	31-Dec-2015
Gres Panaria Portugal S.A.	42,598	42,598
Panariagroup USA	46,729	46,729
Montanari Ceramiche S.r.l.	495	495
Panariagroup Immobiliare	-	40
	89,822	89,862

The investment in Panariagroup Immobiliare was zeroed out as a result of the company's liquidation, concluded in December 2016.

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

	Share capital K EUR / K USD	Value using the Equity Method(1) K EUR	Profit / Loss 2016 K EUR	% held	Amount in the financial statements K EUR
Gres Panaria Portugal S.A.	Euro 16,500	53,623	4,322	100%	42,598
Panariagroup USA (2)	USD 65,500	63,143	6,165	100%	46,429
Montanari Ceramiche S.r.l.	Euro 48	401	(71)	100%	495

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

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

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

As stated in the section on Accounting Principles, the book value is measured at equity.

Impairment Testing

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

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

The value in use (equity value) was determined by subtracting the net debt from the enterprise value of the individual companies as at 31 December 2016. The enterprise value is derived from the present value of future cash flows expected to be generated by each equity investment, over the explicit forecast period and subsequent thereto (by determining a terminal value attributable to each).

The recoverable amount of each equity investment was determined by applying the UDCF (“Unlevered Discounted Cash Flow”) model to the cash flows included in the 2017-2021 Business Plan approved by the Board of Directors of the 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, by applying a return in perpetuity. For the determination of the cash flow on which the terminal value was

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

The discount rate used to discount expected cash flows 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 Company set out to develop a sensitivity analysis on the test results compared with the change in the basic assumptions, identifying WACC and EBITDA as significant parameters for this analysis, as they condition the value in use of the cash generating units.

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

Note that the impairment tests are based on business plans determined by management 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.

Set out below is the outcome of the tests:

Gres Panaria Portugal

Against a carrying value of the investment in Gres Panaria Portugal of Euro 42.6 million, an equity value has emerged from the above tests of Euro 129.2 million.

Panariagroup USA

Based on the above parameters, the equity value of Panariagroup USA at 31 December 2016 is approximately Euro 234.6 million, compared with the carrying value of the investment of Euro 46.7 million.

Montanari Ceramiche S.r.l.

Against a total carrying value of the equity investment in Montanari Ceramiche S.r.l. of Euro 0.5 million, an equity value has emerged from the above tests of Euro 0.9 million.

Impairment - Sensitivity Analysis

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

Amounts in millions of Euro	WACC used	WACC +1.0%
Gres Panaria (*)	129.2	110.2
Panariagroup USA (**)	228.4	214.4
Montanari (*)	0.9	0.8

(*) Amounts in Euro/million

(**) Amounts in USD/million

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

Amounts in millions of Euro	EBITDA used	EBITDA - 10%
Gres Panaria	129.2	129.2
Panariagroup USA (*)	228.4	228.4
Montanari	0.9	0.9

(*) Amounts in millions of USD

Upon a change in the main assumptions, according to the above tables, no impairment of equity investments would emerge for the equity investments of Panariagroup USA and Gres Panaria, while a write-down of about Euro 20 thousand would be necessary for Montanari if the WACC of the plan should increase by 1% with respect to the assumptions of the Plan.

2.d. Deferred tax assets

The balance is as follows:

	31-Dec-2016	31-Dec-2015
Deferred tax assets:		
- taxed provisions	2,934	2,997
- tax losses	5,616	6,859
- for ACE not deducted	-	216
Deferred tax assets	8,550	10,072

Deferred tax assets for "tax losses" refer to the economic results from 2012 to 2015, which recorded negative taxable income. The achievement of a positive economic result in 2016 allowed a partial recovery of the deferred tax assets.

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

The Company is included in the tax consolidation headed 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. (Company placed in liquidation and wound up in December 2016).

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.e. Other non-current assets

	31-Dec-2016	31-Dec-2015
Intercompany loans receivable	5,461	9,100
Loans due from third parties	188	365
Other non-current assets	146	146
	5,795	9,611

The item "Intercompany loans receivable" consists of loans provided by the Company to the subsidiary Florida Tile Inc of Euro 3,036 thousand, a loan to Gres Panaria Portugal of Euro 1,875 thousand and a loan to Montanari Ceramiche S.r.l. of Euro 550 thousand.

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

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

4) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

CURRENT LIABILITIES

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

Short-term financial payables are made up as follows:

	31-Dec-2016	31-Dec-2015
Current account overdrafts	16	5,400
Export advances	8,169	5,250
Medium/long-term loans	20,073	20,095
	28,258	30,745

The changes in financial position during 2016, compared with 2015, are shown in the Cash Flow Statement contained in the section relating to the financial statements.

The Company's total borrowing facilities granted by banks at 31 December 2016 amounted to Euro 98.5 million, of which Euro 8.2 million had been drawn down at that date.

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

3.b. Trade payables

The trend in trade payables is as follows:

	31-Dec-2016	31-Dec-2015
Due to third parties	46,472	44,930
Due to subsidiaries	1,727	1,333
Due to related parties	211	204
Due to parent companies	-	-
	48,410	46,467

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

3.c. Due to tax authorities

This caption comprises:

	31-Dec-2016	31-Dec-2015
Withholding tax	2,353	2,226
Income tax	26	146
	2,379	2,372

3.d. Other current liabilities

At 31 December 2016, this caption comprises:

	31-Dec- 2016	31-Dec- 2015
Due to social security institutions	3,748	3,332
Due to employees	5,206	4,288
Due to customers	3,729	3,088
Due to agents	6,156	5,713
Financial derivatives – negative fair value	361	57
Due for EUA shares to purchase	418	482
Other	127	101
Total current payables	19,745	17,061
Deferred income from earthquake insurance payouts	371	135
Other accrued expenses and deferred income	29	81
Total current accrued expenses and deferred income	400	216
	20,145	17,277

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 Company recorded in 2016.

“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 therefore recognised in the income statement 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.

NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31-Dec-2016	31-Dec-2015
Employee severance indemnities	5,818	5,756

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

Demographic assumptions

Average retirement age: 100% on reaching the so-called “AGO” (Assicurazione Generale Obbligatoria) requirements.

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

Inability: INPS tables divided by age and gender

Probability of termination of employment for reasons other than death (calculated on the basis of historical data for the last five years):

Age group	Probability
0-24	13.2%
25-29	7.1%
30-34	5.5%
35-39	3.4%
40-49	2.7%
Over 50	2.4%

Financial assumptions

The following discount rates have been used:

31-Dec-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:

Year	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	5,756
Charge to the income statement	112
Charge to "Other Comprehensive Income"	372
Portion paid out during the year	(422)
Employee severance indemnities at 31-Dec-16	5,818

4.b. Deferred tax liabilities

Deferred tax liabilities at 31 December 2016 were composed as follows:

	31-Dec-2016	31-Dec-2015
Deferred tax liabilities:		
- accelerated amortisation/depreciation	51	108
- valuation of severance indemnities according to IFRS	(147)	(51)
- valuation of agents' termination indemnities according to IFRS	186	164
- valuation of inventories	907	1,225
- exchange differences on valuation	280	455
- other	3	8
Deferred tax liabilities	1,280	1,909

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31-Dec-2016	31-Dec-2015
Provision for agents' termination indemnities	3,253	3,207
Other provisions	650	535
	3,903	3,742

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.

The main items that make up "Other provisions" are the "Provision for the risks of ongoing disputes", the "Provision for returns" and provisions for other potential liabilities estimated.

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, 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.

The Company's tax years from 2012 onwards are still open for assessment by the tax authorities. Management, with support from the Company's tax advisors, believes that the

settlement of these open years will not give rise to significant liabilities not already recorded in the financial statements.

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

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

	31-Dec-2016	31-Dec-2015
Medium/long-term loans	57,452	44,555
	57,452	44,555

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

In 2016, new loans were taken out for a total amount of Euro 37.5 million.

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 owned property.

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

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

	31-Dec-2016
2017	20,073
2018	19,517
2019	12,332
2020	9,202
2021	4,179
2022	2,778
2023	2,778
2024	2,778
2025	2,778
2026	1,111
Medium / Long-term	57,452
Financial payables	77,525

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

4.e. Other non-current liabilities

At 31 December 2016, this caption comprises:

	31-Dec- 2016	31-Dec- 2015
Due to suppliers beyond 12 months	1,183	1,503
Deferred income on grants for earthquake	1,153	2,151
	2,336	3,654

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.

“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.

EQUITY

Equity consists of:

	31-Dec-2016	31-Dec-2015
Share capital	22,678	22,678
Share premium reserve	60,784	60,784
Revaluation reserves	4,493	4,493
Legal reserve	3,958	3,958
Other reserves	50,369	52,003
Profit/Loss for the year	3,339	(1,103)
	145,621	142,813

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

The equity shown in the financial statements at 31 December 2015 and 31 December 2016 includes the impacts of the transition from Italian GAAP to International Financial Reporting Standards, which have been booked to "Other reserves".

The main items making up equity are discussed below.

Share capital

The share capital, subscribed and paid in consists of 45,355,291 shares with a par value of Euro 0.50 each.

Share premium reserve

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

- Euro 5,069 thousand in relation to the share capital increase carried out in 2000 by Panariagroup Industrie Ceramiche S.p.A.;
- Euro 53,114 thousand for the increase in capital carried out in 2004 through the public offering on the stock market;
- Euro 2,601 thousand for the unutilised reserve for additional shares related to the portion of equity reserved for servicing the bonus share at the time the Company was listed.

Revaluation reserves

The revaluation 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 November 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.

Other reserves

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

	31-Dec- 2016	31-Dec- 2015
Extraordinary reserve	50,435	50,435
Payments on capital account	1,077	1,077
Retained earnings/losses and other reserves	(1,143)	491
	50,369	52,003

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.

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

The decrease compared to the previous year is due to the effect of the losses carried forward regarding 2015.

Treasury shares

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

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 2015.

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

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

summary of uses in the three previous years

		Possible utilisation	Amount available	to cover losses	for other reasons
SHARE CAPITAL	22,677,645.50				
SHARE PREMIUM RESERVE	60,783,618.45	A B*	60,783,618.45		
REVALUATION RESERVE 576/75	27,888.67	A B**	27,888.67		
REVALUATION RESERVE 72/83	296,714.32	A B**	296,714.32		
REVALUATION RESERVE EX LG 413/91	64,630.67	A B**	64,630.67		
REVALUATION RESERVE LG 342/2000	478,927.54	A B**	478,927.54		
REVALUATION RESERVE 342/2000	3,624,772.26	A B****	3,624,772.26		
LEGAL RESERVE 5%	3,958,872.91	B***	0.00		
TREASURY SHARES RESERVE	1,614,284.94	-	0.00		
RESERVE SPEC. DPR 22/12/86	3,873.43	A B C	3,873.43		
RESERVE SPEC. LG 399/87	5,050.95	A B C	5,050.95		
GOVERNMENT GRANT RESERVE (50%)	6,931.63	A B C	6,931.63		
RESERVE UNDER L.130/83	3,767.02	A B C	3,767.02		
MERGER SURPLUS RESERVE	3,107,852.68	A B C	3,107,852.68		
EXTRAORDINARY RESERVE	50,434,789.19	A B C	50,434,789.19		
INTEREST-FREE LOAN ON CAPITAL ACCOUNT	1,076,812.63	A B**	1,076,812.63		
RESERVE ART.55 597/73	51,645.69	A B C	51,645.69		
RESERVE L.696 55-597	42,788.45	A B C	42,788.45		
IAS RESERVE	(750,229.92)	-	0.00		
LOSSES CARRIED FORWARD	(3,623,462.33)	-	0.00		
RETAINED EARNINGS	9,073.80	A B C	9,073.80		
NET PROFIT (LOSS)	3,339,037.57	-	0.00		
Reserve not available****			62,728,592.28		
Residual amount available for distribution			57,290,545.10		

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

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

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

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

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

Legend

A For capital increase

B For cover losses

C For distribution to shareholders

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as 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

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

The Company gave the following guarantees only to subsidiaries and associates:

- in favour of Florida Tile Inc., for USD 2.5 million on bank guarantees and loans granted by a bank to the US company; USD 1.2 million in favour of a Kentucky government authority for the exercise of production activities at the plant in Lawrenceburg, KY; and USD 0.9 million and Euro 1.9 million to suppliers of plants;
- in favour of Panariagroup USA for USD 9.6 million on loans granted by a bank;
- in favour of Gres Panaria Portugal for a total of Euro 1 million of bank guarantees granted by an Italian bank to the Portuguese company and Euro 1.8 million to suppliers of plants;
- in favour of AGL Panaria for 14.9 million Rupees on bank guarantees (corresponding to around Euro 0.2 million).

The loan contracts do not contain any covenants.

6) COMMENTS ON THE MAIN INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

These revenues are analysed by geographical area as follows:

	31-Dec-2016	31-Dec-2015	Change
Italy	64,087	64,207	(120)
EU countries	68,769	57,128	11,641
Non-EU countries	43,453	40,311	3,142
Intercompany	15,304	13,047	2,257
(Less) Rebates	(2,340)	(1,855)	(485)
Total revenues	189,273	172,838	16,435

Panariagroup Industrie Ceramiche S.p.A. recorded a considerable growth in total revenues of 9.5% (Euro 16.4 million).

More details can be found in the Directors' Report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31-Dec-2016	31-Dec-2015	Change
Expense recoveries (displays, transport)	1,909	1,533	376
Gains on the sale of property	37	193	(156)
Out-of-period income	218	615	(397)
Intercompany services	3,328	2,525	803
Sale of the Cotto d'Este customer list	531	0	531
Compensation for damages	628	177	451
Capitalisation of own work	755	753	2
Energy income	1,828	2,409	(581)
Grants	953	516	437
Other	268	169	99
Other revenues	10,455	8,890	1,565

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

The item "Sale of the Cotto d'Este customer list" for Euro 531 thousand refers to the value determined by independent appraisal of the list of customers of the Cotto d'Este brand in the United States, sold by the subsidiary Florida Tile.

The item "Capitalisation of own work" refers to the personnel employed for implementation of the new SAP management platform in progress for Euro 755 thousand, in part re-invoiced to the foreign subsidiaries pursuant to the "Cost sharing" contract entered into by the parties.

“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-2016	31-Dec-2015
Raw materials	23,108	20,880
Ancillary and consumable materials	11,374	9,698
Finished and semi-finished products and goods for resale	8,888	10,576
Packaging	8,484	7,752
Change in inventories	(261)	(182)
Other	780	760
Raw materials	52,373	49,484

The growth in item “Raw materials” is attributable to the increase in square metres produced in the plants, as already described in the Directors' Report.

“Finished and semi-finished products and goods for resale” refers to purchases of ceramic material from third parties, recording a decrease compared to the previous year.

7.b. Services, leases and rentals

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

	31-Dec-2016	31-Dec-2015
Property rental	5,605	5,608
Rentals of plant, vehicles, computers	2,481	2,025
Commissions	12,335	11,210
Utilities	20,204	19,373
Commercial expenses and advertising	4,740	4,310
Sub-contract work	9,914	10,103
Maintenance	5,379	4,816
Transportation	7,035	6,468
Industrial services	6,130	5,301
Directors' and statutory auditors' fees	862	745
Consulting fees	2,177	2,292
Insurance	491	471
Other	5,950	4,342
Services, leases and rentals	83,303	77,064

“Property rental” includes the rents that the Company pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the Company carries on its business. The rent contract is for eight years (with tacit renewal on first expiry in 2011 for another eight years) with an annual rent initially set at Euro 4,500 thousand and which is increased each year in line with ISTAT statistical data. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

7.c. Personnel costs

Personnel costs passed from Euro 47,063 thousand at 31 December 2015 to Euro 50,830 thousand at 31 December 2016, marking an increase of 8%. The impact on the value of production is less than last year by 0.6%.

Personnel costs can be broken down as follows:

	31-Dec-2016	31-Dec-2015
Wages and salaries	36,332	33,368
Social security contributions	12,104	11,411
Severance indemnities	2,394	2,284
	50,830	47,063

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

	31-Dec-2016	31-Dec-2015
Managers	36	36
Supervisors	34	34
White collar	219	214
Foremen	23	24
Blue collar	475	481
	787	789

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

7.d. Other operating expenses

“Other operating expenses” are made up as follows:

	31-Dec-2016	31-Dec-2015
Out-of-period expenses	160	207
Gifts	45	46
Contributions to trade associations	95	91
Losses on disposals	222	130
Indirect taxes	769	824
Office equipment	117	161
Other	266	284
	1,674	1,743

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

The charge for depreciation and amortisation for the year ended 31 December 2016 is up slightly on the prior year from Euro 9,747 thousand to Euro 10,684 thousand, due to relevant investments made in the last two years.

8.b. Provisions and impairments

The item “Provisions and impairment”, amounting to Euro 786 thousand, includes allocations for agents termination indemnities for Euro 331 thousand, allocations to the provision for future charges estimated at Euro 225, allocations to adjust the provision for properties held for sale for Euro 171 thousand and impairment losses on receivables for Euro 59 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31-Dec-2016	31-Dec-2015
Interest on short-term bank payables	(5)	(71)
Interest expense on medium/long-term loans	(714)	(677)
Financial expense on severance indemnity liability	(113)	(93)
Fair value losses on derivatives	(181)	-
Other	(214)	(179)
Total financial expense	(1,227)	(1,020)
Bank interest income	5	2
Interest on receivables	7	32
Fair value gains on derivatives	-	216
Interest receivable on intercompany loans	195	274
Total financial income	207	524
TOTAL FINANCIAL INCOME AND EXPENSE	(1,020)	(496)
Exchange losses	(2,014)	(1,759)
Exchange gains	2,865	3,701
TOTAL EXCHANGE GAINS AND LOSSES	851	1,942
Write-backs on equity investments in subsidiaries	-	-
Impairment losses on equity investments in subsidiaries	(69)	-
Impairment of JV equity investments (Equity Method)	(358)	(164)
Dividends from subsidiaries	1,980	1,980
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	1,553	1,816
Financial losses on discounting	-	(340)
Financial gains on discounting	60	-
DISCOUNTING GAINS (LOSSES)	60	(340)
Total financial income (expense)	1,444	2,922

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 Company is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.

The following is a sensitivity analysis to show the impact on the 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%	-0.7
+ 2.00%	-1.4

Exchange rates (EUR/USD)

Rate	Higher (Lower) Pre-tax profit € mln
0.90	+4.5
1.00	+1.9
1.10	-0.2
1.20	-1.9
1.30	-3.4

* Hypothesis of a constant interest rate over the entire period

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

10. INCOME TAXES

10.a. Income taxes

Income taxes for the financial year were negative at Euro 626 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

A	Pre- Tax profit	3,959
B	Personnel costs	50,831
C	Net finance costs (net of write-downs and revaluations of investments)	536
D	IRAP deduction from tax wedge	49,670

A	Theoretical taxable income for IRES purpose	3,959
A+B+C-D	Theoretical taxable income for IRAP purpose	5,656
CF1	Theoretical Tax Charge	

Theoretical
Theoretical tax "Tax Rate"

1,089	27.50%
221	3.90%
1,309	33.07%
(242)	-6.12%
(256)	-6.47%
(517)	-13.07%
271	6.84%
191	4.82%
(113)	-2.85%
(22)	-0.56%
620	15.66%

No taxation of earthquake grants

Italian's allowance for corporate equity (ACE)

Dividends - Taxation 5%

IRES Non-deductible costs

IRAP Non-deductible costs

Benefit from fiscal consolidation

Other

ACTUAL tax charge

Already from the financial statements for the year ended 31 December 2015, the 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 0.074 are disclosed at the foot of the income statement (loss of Euro 0.024 per share for the year ended 31 December 2015).

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

No events/transactions were recorded during the year that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. The Company's management has interpreted "significant non-recurring events and transactions" to mean those falling outside the normal course of business.

As previously specified in the relevant paragraph, the negative effect of the income taxes item was caused by the net adjustment of deferred tax assets and liabilities recorded in the financial statements to the new IRES rate reduced from 27.5% to 24%, whose provision was already in effect at the date the financial statements were drafted.

POSITIONS OR TRANSITIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

No events/transactions were recorded during the year ended 31 December 2016 that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. As specified in this Communication "atypical and/or unusual transactions mean those transactions which by virtue of their significance/size, nature of the counterparties, purpose of the transaction, method of determining the transfer price and timing (proximity to year end) may give rise to doubts concerning: the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of company assets, and the protection of minority shareholders".

SEGMENT REPORTING

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.

In terms of their economic and financial characteristics, the products distributed by the Company 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, a breakdown is not necessary since the information would not be useful to readers of the financial statements. The related disclosures required by paragraphs 32-33 of IFRS 8 have been provided in the Directors' Report.

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 to Finpanaria S.p.A. and Immobiliare Gemma for administrative and organisational services.

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,449	5,449
Commission for guarantees received	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	0.03%	1.50%	1.13%
Costs	2.73%	139.50%	105.60%

* 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.

Other related parties of the company include the subsidiaries:

Gres Panaria Portugal S.A.

Panariagroup USA Inc.

Lea North America LLC

Florida Tile Inc.

Montanari Ceramiche S.r.l.

For transactions with these subsidiaries, refer to the section "Transactions with subsidiaries" in the Directors' Report.

ATTACHMENTS

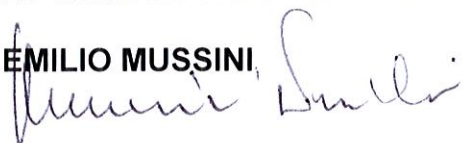
The following attachments contain additional information to that provided in the explanatory notes, of which they form an integral part:

- Statement of assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws
- Statement of changes in intangible assets from 1 January 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 assets
- Statement of changes in financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuers' Regulation
- Certification of the 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 assets still recorded in the balance sheet that have been subject to revaluation in accordance with specific laws

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

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

As of December 31, 2016 revaluations made in previous years have been fully depreciated

EXPLANATORY NOTES - ATTACHMENT 2

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

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

	Start-up costs and costs of expansion	Research and Advertising capitalized	Patents and intellectual property	Concessions, licenses and trademarks	Other intangible assets	Intangible assets in progress	TOTAL
Balance at 1 January 2015	0	0	0	746	0	0	746
Increases	-	-	-	345	-	1,134	1,479
Reclassifications	-	-	-	-	-	100	100
Decreases	-	-	-	-	-	-	0
Ammortisation	-	-	-	(330)	-	-	(330)
Balance at 31 December 2015	0	0	0	761	0	1,234	1,995
Increases	-	-	-	152	-	3,313	3,465
Reclassifications	-	-	-	-	-	-	0
Decreases	-	-	-	-	-	-	0
Ammortisation	-	-	-	(305)	-	-	(305)
Balance at 31 December 2016	0	0	0	608	0	4,547	5,155

EXPLANATORY NOTES - ATTACHMENT 3

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

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

	Land and buildings	Plant and Machinery	Extraordinary maintenance to third party assets	Equipment and other Assets	Construction in progress and advances	TOTAL
Balance at 1 January 2015	699	30,245	4,993	1,939	146	38,022
Increases		7,676	756	776	6,649	15,857
Ammortisation	(23)	(7,508)	(1,075)	(811)		(9,417)
Decreases		(399)		(7)		(406)
Reclassifications		46			(146)	(100)
Balance at 31 December 2015	676	30,060	4,674	1,897	6,649	43,956
Increases		7,113	2,309	759	79	10,260
Reclassifications		(8,013)	(1,649)	(717)		(10,379)
Decreases	(676)	(4)		(37)		(717)
Ammortisation		6,273	354	22	(6,649)	-
Balance at 31 December 2016	-	35,429	5,688	1,924	79	43,120

EXPLANATORY NOTES - ATTACHMENT 4

- Statement of changes in financial assets from 1 January 2015 to 31 December 2016

Statement of changes in financial assets from 1 January 2015 to 31 December 2016
(in thousand of Euro)

	Investments in subsidiaries	Investments in affiliated companies	Investments in parent companies	Investments in other companies	TOTAL
Balance at 1 January 2015	89,862	-	-	357	90,219
Increases					-
In share capital				-	-
Write-down of investments				(172)	(172)
Revaluation of Investments					-
Balance at 31 December 2015	89,862	-	-	185	90,047
Increases					-
In share capital				207	207
Write-down of investments				(317)	(317)
Revaluation of Investments					-
Liquidation subsidiary company	(40)				(40)
Balance at 31 December 2016	89,822	-	-	75	89,897

EXPLANATORY NOTES - ATTACHMENT 5

- Statement of changes in financial position

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

PANARIAGROUP

FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	31-Dec-2016	31-Dec-2015
A Cash	(7)	(6)
B Other Cash and cash equivalents	(9,941)	(5,469)
C Securities held for sale	0	0
D Liquidity (A+B+C)	(9,948)	(5,475)
E Short-term financial assets	0	0
F Due to banks	8,185	10,650
G Current portion of long-term loans	20,073	20,095
H Other short-term financial debt	0	0
I Short-term financial indebtedness (F+G+H)	28,258	30,745
J Net short-term financial indebtedness (I+E+D)	18,310	25,270
K Non-current portion of long-term loans	57,452	44,555
L Due to bondholders	0	0
M Other long-term financial debt	0	0
N Long-term financial indebtedness (K+L+M)	57,452	44,555
O Net financial indebtedness (J+N)	75,762	69,825

EXPLANATORY NOTES - ATTACHMENT 6

- Directors and Officers

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
Giuliano Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
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 7

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

This table, prepared in accordance with article 149-duodecies of the CONSOB Issuers' Regulation, reports the fees payable in 2016 for auditing and other services provided by the independent auditors.

Type of services	Party providing the services	Recipient	Fees earned in 2016
Auditing	Reconta Ernst & Young	Panariagroup S.p.A.	118
Exepenses on auditing serices	Reconta Ernst & Young	Panariagroup S.p.A.	11
Other services	Reconta Ernst & Young	Panariagroup S.p.A.	12
Total			141

EXPLANATORY NOTES - ATTACHMENT 8

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

ATTACHMENT 3C-ter

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

1. The undersigned, Paolo Mussini, Emilio Mussini 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 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 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%