CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018
DIRECTORS' REPORT

Panariagroup Industrie Ceramiche Spa

Panariagroup is an Italian multinational leader in innovation and beauty.

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

OUR VALUES

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

<u>AESTHETIC QUALITY AND EXCELLENCE</u>
We tenaciously pursue industrial excellence, from quality raw materials to process efficiency, to obtain products that combine absolute aesthetic value with the highest level of technical performance.

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

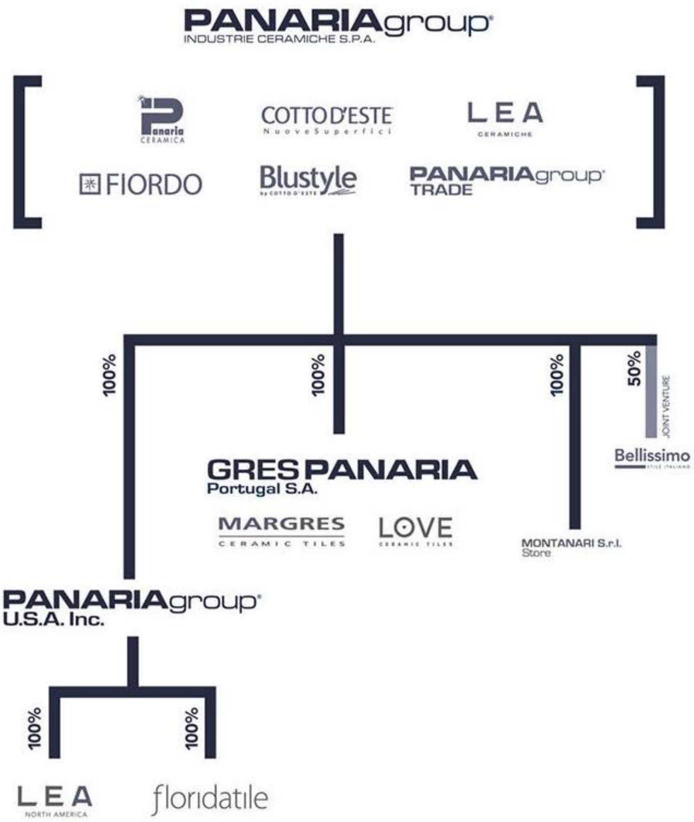
<u>RELIABILITY</u>
The guarantee of a Group which, from its family roots in the ceramic district of Sassuolo to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world whilst maintaining an Italian core.

Panariagroup is a leading manufacturer of ceramics tiles for floors and walls. It has over 1,700 employees, 10,000 customers, 6 manufacturing plants (3 in Italy, 2 in Portugal and 1 in the United States) and a presence, through its broad and extensive sales network, in over 130 countries worldwide.

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

STRUCTURE OF THE GROUP

The structure of the Group as at 30 June 2018 is as follows:



The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, with registered office 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. All brands are focused on the high-end and deluxe market segment and mainly sell porcelain stoneware product lines, both in Italy and abroad.

Gres Panaria Portugal S.A, with registered office in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.
Gres Panaria Portugal produces ceramic tiles for floors and walls under two separate brand names, Margres and Love Tiles, both aimed at the main European markets.

Panariagroup USA Inc., with registered office in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.
It owns 100% interests both in Florida Tile Inc. and Lea North America LLC.
This company markets Panaria branded products on the North American market.

Florida Tile Inc., with registered office in Delaware, USA, share capital of USD 34,000,000, wholly owned by Panariagroup USA Inc., produces and sells ceramic tiles in the USA through three main channels: its own distribution network (24 stores), independent distributors and large distribution (Home Centers).

Lea North America LLC., with registered office 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., with registered office in Finale Emilia (Italy), share capital of Euro 48,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

Furthermore, the Group participates in a Joint Venture Company (JVC) based in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by AGL India Ltd, a leading manufacturer in the Indian market.

DIRECTORS AND OFFICERS

Board of Directors

Name	Office
Emilio Mussini	Chairman of the Board and Managing Director
Paolo Mussini	Deputy Chairman and Managing Director
Andrea Mussini	Deputy Chairman
Giuliano Pini	Managing Director
Giuliano Mussini	Director
Silvia Mussini	Director
Daniele Prodi	Director
Francesca Bazoli	Independent Director
Sonia Bonfiglioli	Independent Director
Tiziana Ferrari	Independent Director

Board of Statutory Auditors

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

Independent Auditors

EY S.p.A.

RESULTS AND SIGNIFICANT EVENTS IN 2018

Dear Shareholders,

Amongst the main advanced economies, growth remained broadly solid, but global trade slowed significantly and financial and currency tensions surfaced in the most fragile emerging countries. Global risks on corporate investment activity increased as a result of the possible impact of protectionist measures with a worsening of the financial tensions.
Trade tensions between the United States and China represent an element of uncertainty that loom menacingly, contributing negatively to the confidence of operators.

Economic activity in the Euro zone has slowed down, although it has continued to expand. Inflation stood at around 1.5% at year end. The Governing Council of the ECB limited net purchases of securities (quantitative easing) and reaffirmed the need to preserve a broad degree of monetary accommodation with low interest rates for the long term.

In Italy, the strong expansion of investments, which characterised the first half of the year, helped to support growth, while exports remained stable, affected by the weakness of world trade. In the second half of the year output growth slowed down, reflecting a stagnation in industrial production, continued growth in services and a moderately positive contribution from the construction sector.

Families and companies confidence indicators registered a decline, inflation rose to around 1.7 per cent, the highest level since the beginning of 2013; a rise in energy prices has contributed to price recovery.

The Italian financial markets have been affected by strong tensions, linked to investors' uncertainty about the direction of economic and financial policies. Government securities yields have increased, even for shorter maturities. The spread between Italian and German government securities yields, after the peaks of the last quarter of 2018, has partially narrowed and seems to be characterised by lower volatility.

Segment framework: the performance of Italian competitors

The Italian ceramics sector has always been a leader in terms of technology and innovation; this trend was confirmed in 2017 and partly in 2018 (a slowdown in the second half of the year was evident), with strong investments in new technologies being made, driven by tax incentive measures within the "Industria 4.0" package.

The Italian ceramics sector recorded a decrease in turnover during the year.
The slowdown in business volumes characterised all global geographical areas, with the greatest difficulties found in the United States and Asia, characterised by strong competitive pressure from foreign competitors (Spain and China) and local producers, respectively.

Within this macro-economic framework, which is decidedly less dynamic than expected at the beginning of the year, the Group's overall results were lower than in the previous year.

Group Results

Results for 2018 can be summarised as follows:

- **Net revenues for consolidated sales** amounted to Euro 371.0 million (Euro 383.7 million in 2017, with a decrease of 3.3%).
- **Value of production** amounted to Euro 391.6 million (Euro 414.0 million in 2018, with a decrease of 5.4%).
- **Gross operating profit** was equal to Euro 19.3 million (Euro 42.0 million in 2017).
- **Net operating profit** amounted to a negative Euro 5.3 million (a positive Euro 18.2 million in 2017).
- N**et result** amounted to a negative Euro 4.1 million (a positive Euro 11.4 million in 2017).

The year 2018 closed with a negative result, especially in terms of margins.

In terms of business volumes, the decrease of 3.3% is considered to be entirely acceptable, given the unfavourable macroeconomic environment; the result achieved, which substantially reflects the general performance encountered in Group reference areas, has nevertheless confirmed a capacity to control the market share even in conditions of fierce competition.

The change in revenues, in Euro, is the result of an increase in sales in the Portuguese Business Unit (+3.0%), a decrease, albeit not particularly significant, in the Italian Business Unit (-2.6%) and a more significant decrease in the US Business Unit (-7.0%), albeit largely justified by the depreciation of the dollar (-4.5%).

There was also a drop in production compared to the previous year, associated with the decrease in sales, with a clear effect of lowering the value of production.

The marked reduction in margins was due to a series of adverse factors that occurred throughout the year.

Firstly, and particularly in the Italian Business Unit, we suffered a contribution margin squeeze; this was the result of an urgent policy to maintain market share, which resulted in the decision to charge prices that were substantially unchanged compared to 2017, against a better product mix, in terms of formats and greater value as regards finishes.

Another factor that has had a very significant impact on our sector and, as far as we are concerned, on the Group's European Business Units, has been the significant increase in gas prices (+28%), a "critical" cost component for ceramics manufacturing.

The increase in production costs was accentuated by the implementation of a policy aimed at containing the level of inventories, which led to a slowdown in production and a consequent increase in manufacturing costs, due to the greater impact of the fixed and semi-variable component

The depreciation of the US dollar also had a negative effect on the Group's revenues, with the conversion of sales made in US dollars into Euro, and on margins, caused by sales made by European Business Units in US dollars.

The 2018 Income Statement also incorporates a series of commercial investments, aimed at more effective coverage of market opportunities, both in terms of product and distribution channels, from which we expect a progressive contribution to the recovery of a growth trend.

All these factors, partly external and partly internal, have contributed negatively to profitability, which has decreased more than proportionally to the drop in business volumes.

Performance of the Group's Business Units

The **Italian Business Unit** achieved an overall 2.6% drop in turnover, slightly better than the performance of its Italian competitors (-2.9%).
On the Italian market, we recorded a positive growth of 1%, taking into account the decrease (-0.6%) experienced by the sector as a whole.
On the other hand, there was a decrease in European markets (-2.5%), mainly due to the performance in more mature markets (Germany, Belgium, the Netherlands), while there was a positive performance in Eastern European countries.
Finally, and more in line with the Italian sector as a whole, there have been more significant decreases in Oceania, Africa and Asia; these latter conditioned by geo-political tensions.
These are areas that, by their very nature, are characterised by a volatile performance due to the execution of large orders, lower economic and political stability compared to Western markets and oscillating liquidity availabilities of the economies connected with the production of energy sources.

The **Portuguese Business Unit** increased its business volumes by 3%.
Positive results regarding "brand" sales were confirmed, with growth of more than 6%, while there was a decrease in "private label" activity.
With reference to "brand" sales, going into more detail as regards geographical areas, the decidedly positive trend in the Italian market continued, with growth remaining in double figures, confirming a strengthened leadership position.
European markets, apart from a slowdown in the French market, have generally recorded substantially stable performances.
As in the case of the Italian Business Unit, the Portuguese Business Unit also reported a decline, albeit slight in absolute terms, in the African and Asian areas;

The **US Business Unit** reported a 2.5% decrease in turnover in dollars.
In the USA the competitive pressure of Spanish and Chinese operators was significant. They with very aggressive pricing policies gained significant market shares, in the presence of a substantially stable performance in the sector.
As far as our Group is concerned, the commercial division that has suffered the most as a result of this situation is the "independent distributors", while the network of our shops, which ensure a more direct presence on the territory, was less affected by this phenomenon.
Sales in the Home Centres showed a promising improvement, above all due to a steady increase in turnover month-by-month, which provides us with confidence for a positive contribution in 2019.

Significant events in the period

In 2018 as well, the Group continued its development, upgrading and efficiency improvement plan for industrial plants.

In the first few months of the year a new complete line was initiated at the Aveiro facility (Portugal) for the production of large-format floor and wall coverings; this investment, in addition to increasing production capacity, provides for an additional important step in terms of efficiency, productivity and competitiveness.

In the same site, in order to improve logistics management and increase business volumes, the areas dedicated to storage, handling and shipping of goods have been expanded.

Furthermore, in the Ilhavo facility (Portugal), an important investment was made within the Press lines department, aimed at introducing a particular type of "technical" product.

The strengthening of the Portuguese production and logistic pole confirms its central role in the Group's development strategies, thanks to the combination of quality, know-how and competitiveness.

At the Group's Italian sites, in the last few months of the year, a new rectification line was installed at the Finale Emilia facility, which started up in February 2019.
This investment allows for the internalisation of some work that had been previously outsourced; the significant difference, in terms of cost per square metre, between internal and external processing will allow for the recovery of the expenditure within a period of less than 3 years.

Both the Finale Emilia and Toano facilities, dedicated to "traditional" stoneware, were affected by a series of initiatives aimed at a more efficient management of "large-formats", a product type towards which the market has strongly geared towards in the segment which the Group is present.

The Fiorano Modenese facility, dedicated to big slabs laminated stoneware, has also undergone a significant reorganisation, the aim of which has been to allow for greater flexibility and versatility in the facility, which is now capable of producing a wider range of types, again with a view to meeting market trends and needs.

In 2018, Panariagroup achieved the important EPD (Environmental Product Declaration) milestone for production processes in the three Italian facilities - Fiorano Modenese, Finale Emilia and Toano - and thus confirms its commitment in terms of environmental sustainability, one of the distinctive features of the Group.
A declaration certified and verified by an independent body, the EPD expresses the environmental performance levels of products throughout their life cycle, in a transparent and objective manner, in accordance with the international standard ISO 14025.
For the Group, this is an important milestone that allows it to enhance its prestigious collection of certifications that make its brands increasingly competitive in the global market and attests to the excellence of its products and services.

As an example of the respect enjoyed by Panariagroup, we would like to highlight the decision made by the Holy See to entrust us with the construction of one of the architectures for the first Vatican Pavilion designed for the 16th International Architecture Exhibition of the Venice Biennale, which was held from 26 May to 25 November 2018.
The group contributed to the construction of the chapel designed by architect Francesco Cellini, providing the project with innovative technology and the aesthetic quality of large thin slabs of laminated porcelain stoneware, an example of Italian industrial excellence.

In 2018, Panariagroup also collected important and prestigious references from around the world and partook in collaborations with leading names in architecture and design. Important partnerships have led to projects (residential, commercial, large public works) and installations, as well as products designed by top international designers. In this way, the Group has confirmed its ability to support complex projects, thanks to its structure

as a large manufacturing company and the know-how of its team, with the capability of monitoring and scaling its output to carry out even the most complex of orders.
Among the most important projects implemented are the Prada Tower in Milan, the Changi airport in Singapore and the Siemens and Fastweb offices in Milan.

ANALYSIS OF GROUP PERFORMANCE

Reclassified Income statement as at 31 December 2018 compared with 31 December 2017

	31-Dec-2018	%	31-Dec-2017	%
			restated	
Revenues from sales and services	**370.995**	**94,75%**	**383.682**	**92,69%**
Change in inventories of finished products	9.426	2,41%	18.202	4,40%
Other revenues	11.145	2,85%	12.075	2,92%
Value of Production	**391.566**	**100,00%**	**413.959**	**100,00%**
Raw, ancillary and consumable materials	(117.203)	-29,93%	(114.702)	-27,71%
Services, leases and rentals	(158.315)	-40,43%	(158.973)	-38,40%
Personnel costs	(93.705)	-23,93%	(94.501)	-22,83%
Other operating expenses	(3.026)	-0,77%	(3.783)	-0,91%
Cost of production	**(372.249)**	**-95,07%**	**(371.959)**	**-89,85%**
Gross operating profit	**19.317**	**4,93%**	**42.000**	**10,15%**
D&A expenses	(21.099)	-5,39%	(22.089)	-5,34%
Provisions and other impairments	(3.475)	-0,89%	(1.732)	-0,42%
Net operating profit	**(5.257)**	**-1,34%**	**18.179**	**4,39%**
Financial income and expense	(1.026)	-0,26%	(2.960)	-0,72%
Pre-tax profit	**(6.283)**	**-1,60%**	**15.219**	**3,68%**
Income taxes	2.185	0,56%	(3.863)	-0,93%
Net profit (loss) for the period	**(4.098)**	**-1,05%**	**11.356**	**2,74%**

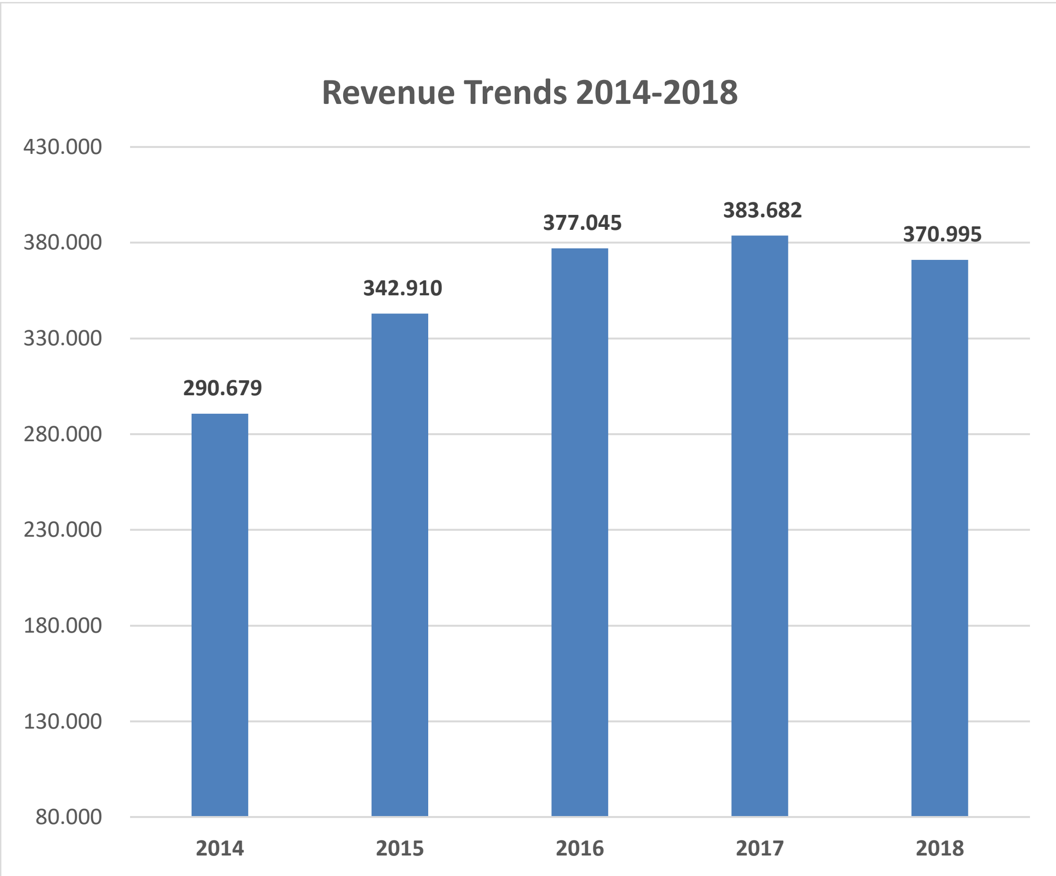
IFRS 15 (Revenues) came into force on 1 January 2018.
The application of this standard has led the Group to reclassify certain items which, previously recognised under "Financial income and expenses", are now recognised as a reduction in Revenues, as they are considered to be of a variable consideration within the scope of the standard.
For reasons of comparability, the 2017 Income Statement has been restated applying the presentation method adopted for 2018 following the application of IFRS 15; the effect on 2017 is a reduction in financial revenues and expenses of Euro 898 thousand, with a zero effect on the net result for the period.

Consolidated revenues

In 2018, the Group achieved total Revenues of Euro 371.0 million, down (-3.3%) on the previous year.

The decrease in turnover, equal to Euro 12.7 million, comprised of Euro 6,1 million for the depreciation effect of the dollar and Euro 6,6 million for a reduction in business volumes.

The graph below shows the performance in turnover over the last 5 years:



Principal markets

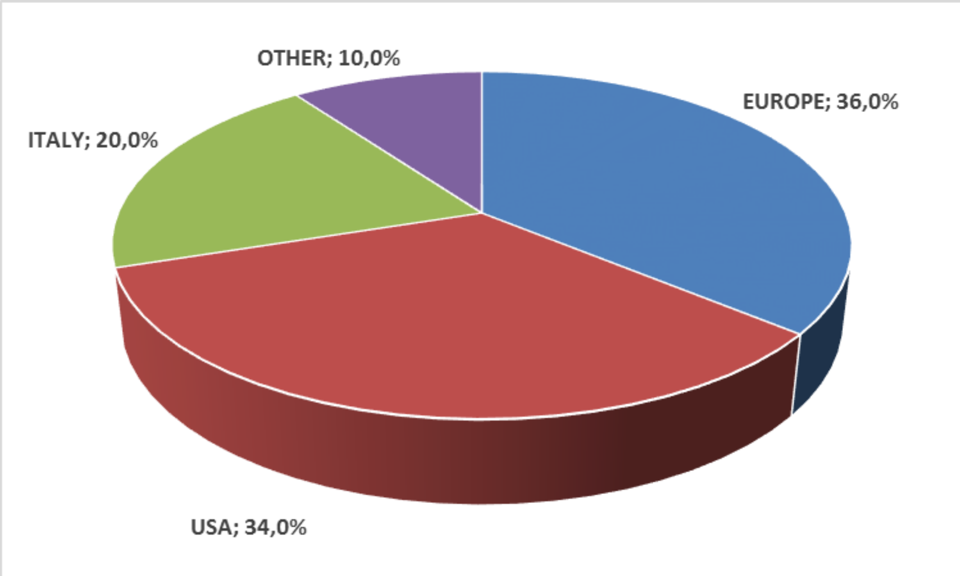
In **Europe**, the Group achieved business volumes in line with the previous year.
The best performance was achieved in Portugal, where, for several years now, the Group has managed to establish itself as the most important player in the sector and continues to grow at a rate of over 10%.
The other Mediterranean countries (Spain and Greece) also performed well, as did Eastern Europe, with an overall growth of 8%.
On the other hand, in the more traditional markets of continental Europe (France, Germany, Belgium, the Netherlands), slowdowns were recorded, which are also reflected in the data released by Confindustria Ceramica regarding the sector as a whole.
The impact of the European markets on total revenues was **36%**.

Turnover on the **US market** fell by 7% in Euro. This performance was partly due to the US dollar weakening against the Euro (-4.5%) and to a reduction in actual business volumes (-2.5%).
Within a stable market, the year was weighed down by a strong reinforcement of Spanish and Chinese competition, which above all, disadvantaged the other exporting countries, local producers were also not spared, especially in the channels of large distributors, the main target of operators working outside of the territory,
The impact of the US market on total revenues was **34%**.

In 2018, the **Italian market** also witnessed a drop in consumption, although not significant. In this context, the Group achieved small but significant growth of 1 %.
In recent years, our strong presence in the Italian market has allowed us to achieve above-average performances in the sector and puts us at the forefront of taking advantage of any signs of recovery in activity in the construction sector.
The impact of the Italian market on total revenues was **20%**.

Other markets (Asia, Canada, South America, Oceania and Africa) suffered a loss of about 10%,
In Asia, the Group was able to partially offset the negative effects in the Middle East, which remains at the centre of political and economic tensions, thanks to positive results in other areas (India, China).
The scenario in Africa remains difficult, with the slowdown in the construction of "large works" (airports, shopping centres, tourist accommodation facilities, etc.), which represent the main outlet for European ceramic products.
In Oceania, the Group, while confirming a good presence in terms of market shares, also recorded a significant drop in business volumes.
The impact of the other markets on total revenues was **10%**.

Turnover of the Group’s **foreign markets** accounted for **80%** of total revenues. **Non-European markets** accounted for **44 %** of overall turnover.



For several years now, the Group has achieved a balanced distribution of its activities in the most important global markets in the high-end range; the internationalisation profile of Panariagroup, which has accompanied a diversification of sales with a strategy of territorial presence, from a production and logistic point of view, certainly represents an important strategic strength.

Operating results

Gross operating profit came to **Euro 19.3 million**, representing 4.9% of the value of production (Euro 42.0 million as at 31 December 2017 representing 10.1% of the value of production).

The drop in margins, although to different extents and for different reasons, affected all the Business Units of the Group.

With the aim of effectively controlling market shares, the Italian Business Unit has adopted a more aggressive commercial policy, in terms of pricing, with a temporary margin squeeze in the launch of the most recent and distinctive collections, facilitating a more rapid affirmation for the near future.
The decision to contain the level of inventories has led to reduced usage of production plants compared to the previous year, mainly concentrated in the second half of the year; this has led to an increase in manufacturing costs, due to the greater impact of fixed and semi-fixed costs, to which a substantial increase in energy prices was added.
Furthermore, with a view to commercial and strategic development, organisational investments have been carried out, the positive effects of which will be felt progressively in the next years, starting from 2019.

The Portuguese Business Unit confirmed positive levels of profitability but did not repeat the performance of the previous year.
Margins were significantly affected by the increase in gas prices, but the start-up of the new Aveiro production line and the commercial costs incurred to service the sales development plan also contributed to the reduction in profitability.

The factor that has most disadvantaged the profitability of the US Business Unit is the reduction in volumes produced, which has allowed for the achievement of stabilising inventories, but at the same time has led to a significant increase in the impact of fixed and semi-variable costs.
The strengthening of the structure carried out in the previous two years, aimed at supporting the development programmes, has led to, in the presence of an unexpected and unlikely fall in turnover, an increased impact of these costs; despite the major initiatives for the resizing and optimisation of these expenses carried out from the second half of 2018.

Net operating profit was a negative Euro 5.3 million (a positive Euro 18.2 million at 31 December 2017).

The impact of amortisation/depreciation on value of production is substantially in line with the previous year. Considering the negative economic result and the non-favourable economic context, an higher level of allowance and provisions was applied on slow moving inventory.

The net financial income improved by Euro 1.9 million compared to 31 December 2017. The positive change is almost exclusively due to "exchange gains and losses", which was a negative of Euro 1.1 million in 2017, while it was a positive Euro 1.6 million in 2018.
Of particular note is the limited impact of financial expenses on value of production (equal to 0.67 %, net of the "exchange rate"), thanks to current market conditions, characterised by low interest rates, but also by the careful and prudent management of treasury.

The **consolidated net result** amounted to a negative Euro 4.1 million (a positive Euro 11.4 million in 2017).

ANALYSIS OF THE GROUP'S BALANCE SHEET

(in thousands of Euro)

	31-Dec-2018	31-Dec-2017
Inventories	159.948	151.480
Receivables from customers	64.954	79.142
Other current assets	13.818	12.044
CURRENT ASSETS	**238.720**	**242.666**
Payables due to suppliers	(88.342)	(83.198)
Other current liabilities	(28.206)	(28.980)
CURRENT LIABILITIES	**(116.548)**	**(112.178)**
NET WORKING CAPITAL	**122.172**	**130.488**
Goodwill	8.139	8.139
Intangible assets	15.553	14.239
Tangible assets	124.840	126.005
Equity Investments and other financial assets	176	300
FIXED ASSETS	**148.708**	**148.683**
Receivables due after following year	547	537
Liabilities for employee benefits	(5.066)	(5.531)
Provision for risk and charge	(4.506)	(4.569)
Deferred tax assets	6.814	4.633
Other payables due after the year	(3.139)	(3.531)
ASSET AND LIABILITIES DUE AFTER THE YEAR	**(5.350)**	**(8.461)**
NET CAPITAL EMPLOYED	**265.530**	**270.710**

Short term financial assets	(16.910)	(7.156)
Short term financial debt	32.513	24.662
NET SHORT TERM FINANCIAL DEBT	**15.603**	**17.506**
Mid-Long term financial debt	82.865	81.895
NET FINANCIAL POSITION	**98.468**	**99.401**
Group Shareholder's Equity	167.062	171.309
SHAREHOLDERS' EQUITY	**167.062**	**171.309**
TOTAL SOURCES OF FOUNDS	**265.530**	**270.710**

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

Net working capital fell by Euro 8.3 million compared to the same period of the previous year; the net working capital as a percentage of revenues therefore fell from 34.0% to 32.9%.

Inventories increased by about 5.6% in Euro and 4.0 % net of the exchange rate effect; this outcome is the result of different dynamics within the Business Units. In the Italian and US Business Units, which are characterised by a fall in business volumes, we were able, thanks to careful management of the production schedule, to maintain inventory stocks at levels substantially in line with the previous year.
The growth in inventories is therefore exclusively attributable in terms of volumes to the Portuguese Business Unit, which expanded its production capacity with the installation of the new line and required a higher level of inventories in accordance with its commercial development programmes for 2018-2019.

Credit management activities continued with positive results, thanks to rigorous lending procedures and selection of customers, which during these years has resulted in a reduction of the impact of receivables past due and the minimisation of losses on receivables.

In more general terms, we confirm the policy that has guided the Group in recent years, safeguarding the balance sheet and we will operate, with even greater intensity, in the direction of resizing the net working capital requirements, with reference to all its elements: inventory, current receivables and current liabilities.

Non-current assets

Non-current assets remained flat since the beginning of the year, having these movements:

- net investments for the period, of approximately Euro 19.2 million, of which Euro 10.3 million was invested in Italy, Euro 6.5 million in Portugal and Euro 2.4 million in the United States.
- depreciation and amortisation for the period of Euro 21.1 million.
- the greater value of the fixed assets of the US sub-consolidations expressed in Euro, because of the appreciation of the dollar since the end of 2017, totalling Euro 1.9 million.

The Group continued its initiatives aimed at technological upgrading and improvement in production efficiency.

A new rectification line was installed at the Finale Emilia facility in Italy, which will make it possible to internalise processes that are currently outsourced; the differential between internal and external costs guarantees covering the investment within a very short period.
Investments have also been made in lines dedicated to traditional stoneware, aimed at a more efficient management of "large-formats", in terms of internal handling, selection and packaging.
In the Fiorano Modenese production facility, dedicated to laminated stoneware, important initiatives have been carried out to guarantee greater production versatility and to broaden the types of products that can be produced, with a view to covering increasingly successful product ranges.

The Portuguese production pole, which represents an important asset for the Group, also continued to be strengthened thanks to a combination of competitive costs with excellence in quality and production efficiency.
Important investments were made to enhance product ranges, moving towards those products that are increasingly in demand on the market, which involved both production facilities and all internal departments (press lines, furnaces, glazing).
Work was also carried out to expand areas dedicated to the storage and shipping of goods, in order to support the significant volumes handled by the Portuguese Business Unit.
It is also worth noting the intense activities carried out in 2018 concerning the implementation of the SAP system, with a view to Group integration; the launch for the Portuguese Business Unit is scheduled for the first half of 2019.

The US facility also underwent technological upgrading, albeit to a lesser extent than in previous years; the US plant is already capable of supporting significant growth in business volumes in terms of production capacity and logistics under current conditions.

On all sites, there have also been numerous initiatives related to energy efficiency, health and safety and environmental protection.

After a very active three-year period (2015-2017) in relation to the investments profile, with an average of 10% of revenues re-invested, in 2018, as planned, it was possible to remain at standard sector levels.
The 2019 Investment Budget continues along these lines; the objectives set for the new year include further containment, both as a measure in favour of the Financial Position performance, and by virtue of the current industrial structure which is considered adequate for our competitive position, as well as in terms of production capacity and completeness of the product range.

Net financial position

Financial cash flow
(thousands euro)

	31-Dec-2018	31-Dec-2017
Net financial position (debt) - beginning	**(99,40)**	**(83,71)**
Net Result for the period	(4,10)	11,36
D & A	21,10	22,09
Net Variation Provisions	(1,44)	0,16
Non monetary changes	0,02	0,12
Internal operating Cash flow	**15,59**	**33,73**
Change in net working capital and other assets and liabilities	8,29	(10,93)
Distribution of dividends	(3,15)	(3,15)
Net Investments	(19,22)	(34,57)
Changes in Equity	0,44	(1,15)
Exchange rate diff. from US$ financial statement conversions	(1,02)	0,37
Net financial position (debt) - final	**(98,47)**	**(99,40)**

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

The net financial position shows, in absolute terms, a slight improvement compared to the figure at the end of 2017.

The fall in operating margins had a negative impact on the ability to generate "cash"; however, in the face of this contingent factor, the Group was able to take corrective action with regard to net working capital and the containment of investments, which made it possible to keep financial indebtedness in line with objectives.

The Group's management policy in 2019 will focus mainly on financial improvement, especially through initiatives to recover profitability, but we can also confirm the continuation of activities to be undertaken on inventory, trade receivables and payables as well as containment of investments.

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

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

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

CONSOLIDATED FINANCIAL STATEMENT

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

ASSETS	Italy	Europe	USA	Other	31-Dec-2018
NON-CURRENT ASSETS	**57.764**	**57.502**	**67.317**	**154**	**182.737**
Goodwill	350	7.789	0	0	8.139
Intangible assets	6.205	2.327	7.021	0	15.553
Property, plant and equipment	43.783	45.389	35.668	0	124.840
Equity Investments	5	17	1	154	177
Deferred tax assets	7.097	1.980	5.349	0	14.426
Other non-current assets	324	0	223	0	547
Non-current Financial Assets	0	0	19.055	0	19.055
CURRENT ASSETS	**128.596**	**44.480**	**73.205**	**10.532**	**256.813**
Inventories	84.263	25.885	49.800	0	159.948
Trade Receivables	23.741	14.699	15.982	10.532	64.954
Due from tax authorities	4.848	1.630	2.682	0	9.160
Other current assets	1.794	1.690	1.175	0	4.659
Current Financial Assets	0	0	1.182	0	1.182
Cash and cash equivalents	13.950	576	2.384	0	16.910
TOTAL ASSETS	**186.360**	**101.982**	**140.522**	**10.686**	**439.550**

	Italy	Europe	USA	Other	TOT
Net investments 2018	**10.341**	**6.511**	**2.363**	**0**	**19.215**

RESEARCH AND DEVELOPMENT ACTIVITIES

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2018.

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 2018, and in particular those presented at the now regular event of CERSAIE 2018 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 2018 financial statements.

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

RECONCILIATION OF THE PARENT COMPANY'S EQUITY AND NET PROFIT WITH THE CORRESPONDING CONSOLIDATED AMOUNTS

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net results with the corresponding consolidated amounts reported as at 31 December 2018 (in thousands of Euro):

	31-Dec-2018		31-Dec-2017	
	Equity	**Net Income (Loss)**	**Equity**	**Net Income (Loss)**
As per Panariagroup Industrie Ceramiche SpA's financial statements (Partent Company)	**144.311**	**116**	**147.393**	**4.825**
Difference between the book value of equity investments and their value using the equity method	23.259	(869)	24.757	6.710
Elimination of unrealised gains arising on the intercompany transfer of inventories	(796)	626	(1.422)	(190)
Storno (utili) perdite su cambi su finanziamento intercompany	0	(707)	0	1.481
Aligment to Group depreciation's rates	45	(21)	66	(21)
Recognition of deffered tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	306	(305)	611	169
Elimination of unrealised gains arising from dividend disribution	0	(2.970)	0	(1.485)
Others	(63)	32	(95)	(132)
Net effect of consolidation adjustments	**22.751**	**(4.214)**	**23.916**	**6.531**
As per consolidated financial statements	**167.062**	**(4.098)**	**171.309**	**11.356**

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 27 April 2018, the Company has renewed a stock buy-back programme which stood as follows as at 31 December 2018:

Treasury shares

No. of shares	*Average book value*	*Amount*
432,234	**3.7347**	**1,614,284.94**

The number of treasury shares in portfolio is the same as at 31 December 2016, as no purchases or sales were made during 2018.
Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2016; there are therefore no disclosures to be made in accordance with article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

ATYPICAL AND/OR UNUSUAL TRANSACTIONS

As required by CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that during 2018 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

BUSINESS OUTLOOK

The 2018 year, in its entirety, proved to be difficult and was characterised by a series of negative factors, with a consequent marked reduction in the Group's margins.

Being aware that our sector, by its very nature, is characterised by cyclical factors, we believe that the result for the year followed this trend; we believe that, even if we assume that there will not be an immediate turnaround in global trends, the Group's strategies must continue to proceed along a path of development. The excellent growth in business volumes and margins in the 2014-2017 four-year period, within an environment that is not always favourable, testifies to the fact that we have the resources to compete successfully and with performances exceeding the market trend.

Competition on international markets has certainly become more fierce, but we are convinced that the sacrifice in terms of margins made in 2018 to maintain market share is required for a recovery in sales volumes and consequently a more intense use of production capacity.

Beyond the competitive context, in terms of revenues, we expect positive results from the emerging synergies in the Italian Business Unit, between the "Sales", "Strategic Marketing" and "Product Research and Development" divisions, together with the policy of penetration into new distribution channels.
Sales expectations for the Portuguese Business Unit are positive, in line with recent years, also in view of a further improvement in competitiveness and an enhancement of product ranges, thanks to recent production investments.
In the US Business Unit, we also have confidence in the progression of results for the "Home Centres" channel, and we believe that there is room to implement more incisive policies in the Branches segment to increase margins.

As for the Euro/dollar exchange rate, we point out a favourable start to 2019 compared to the first two months of 2018, with an average exchange rate of around 1.14, while in the previous year, during the same period, it stood at around 1.23.

In terms of margins, we expect the Italian Business Unit to benefit from the increase in list prices already implemented from the first quarter 2019, where the target to employees linked to the safeguarding of sales margins have been strengthened.

From a production point of view, we will have better results in terms of productivity for the new Aveiro line, which in 2018 took on standard start-up costs, and greater efficiency in the Fiorano Modenese facility, dedicated to laminated stoneware, from which we expect, in 2019, positive commercial results.

Still on the subject of production costs, energy prices will remain at high levels in the first few months of 2019, but drives for growth have already been exhausted and forecasts are for a gradual decline over the year, to settle at values similar to those of 2017.

In order to recover an adequate level of margins, containment activities for all types of costs will be particularly intense and in this sense expenditure budgets for the new year will take this into consideration in all Business Units.

One of our key management cornerstones will be financial optimisation and an improvement in the financial situation, through a careful management of investments and of the level of net working capital and inventory stocks, with a focus on suitably balancing, according to sales volumes, the production schedule during the year.

The negative result in 2018, which, in our opinion, was a single setback on a generally positive path, must not allow us to forget the values and strengths of our Group, which have few equals in our sector.

Strategic positioning, significant internationalization, widespread commercial distribution, innovative plant and technology equipment, our product portfolio, know-how and the experience and skills of our staff are key pillars that allow us to face future challenges with confidence.

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).

CONSOLIDATED NON-FINANCIAL REPORT

Pursuant to provisions set forth by article 5, paragraph 3, letter b, of Legislative Decree 254/2016, the Company prepared a separate consolidated non-financial report. The consolidated non-financial report for 2018, drawn up according to the "GRI Standards" reporting criteria (or according to "GRI G4 Sustainability Reporting Guidelines") is available on the Group's website.

RISK MANAGEMENT

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

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

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

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

MARKET RISK

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

Raw material price risk:
The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2017 and 2018. Therefore, their increase, which is not currently expected, could have a negative impact on the financial results of the Group in the short term.

BREXIT RISK
The result of the Brexit referendum and the current uncertainty on negotiations with UE, could have impact also on ceramic consumption on the UK market and on the flow of ceramic material import.
We highlight that Panariagroup made sales in 2017 for Euro 6.3 million (equal to about 1.7% of the total Sales), then eventual changes, even significant, on our sales in this area should not have relevant economic and financial impact for the Group.

ENVIRONMENTAL PROTECTION, PERSONNEL COSTS AND REGULATIONS RELATING TO THE SECTOR

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain chemical compounds, particularly with regard to the treatment of such materials, emissions control and waste disposal.
The Group keenly monitors environmental and personnel risks, and any situations arising in connection with operations are treated in compliance with the regulations.
With regards to its personnel, Panariagroup protects the health and safety of its employees in compliance with current regulations governing health and safety in the workplace.
The average workforce in 2018 was equal to 1,735 individuals, an increase of 30 employees compared with the average number in 2017.

ADHESION TO THE SIMPLIFICATION REGIME AS PER ARTICLES 70 AND 71 OF THE ISSUERS REGULATION

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

CONSOB RESOLUTION NO. 11971 OF 14 MAY 1999

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

- ART. 79 -

TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 31-December-2018

Name and Last Name	Investment held in	Number of shares held at the end of the prior year	Number of shares purchased in 2018	Number of shares sold in 2018	Number of shares held at 31-Dec-2018	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	298.389	50.000	44.096	304.293	Direct	Property
		4.400	-	-	4.400	Spouse	Property
Mussini Andrea	Panariagroup	527.019	-	-	527.019	Direct	Property
Pini Giuliano	Panariagroup	97.802	5.000	-	102.802	Direct	Property
		12.380	-	-	12.380	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
Prodi Daniele	Panariagroup	29.500	2.500	-	32.000	Direct	Property
Bonfiglioli Sonia	Panariagroup	-			-		
Ferrari Tiziana	Panariagroup	-			-		
Bazoli Francesca	Panariagroup	-			-		
Marchese Sergio	Panariagroup	-			-		
Ascari Pier Giovanni	Panariagroup	-			-		
Muserra Francesca	Panariagroup	-			-		
Total		**1.134.906**	**57.500**	**44.096**	**1.148.310**		

SIGNIFICANT EVENTS OCCURRED AFTER YEAR END

No significant events are to be reported.

Warnings

The consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Legislative Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

After the European Regulation no. 1606 took effect in July 2002 and beginning with the financial statements of the first half of 2005, the Group adopted the IFRS standards issued by the International Accounting Standards Board officially approved by the European Union. The accounting policies and financial statement formats used in preparing these financial statements do not differ from those applied in the financial statements for the year ended 31 December 2015, with the exception of those international accounting standards which entered into effect as at 1 January 2016 and which are illustrated in the section of the financial statements named "Accounting standards, amendments and interpretations applicable as at 1 January 2016"; refer to this section for more information. The application of these standards did not produce any significant effects.
As regards the provisions on the conditions applied to the listing of parent companies, incorporated companies or companies regulated under the laws of countries outside of the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

- As at 31 December 2018, three of the companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc. and Lea North America LLC.
- Adequate procedures have been adopted to ensure thorough compliance with the new rules (art. 36 of Market Regulations issued by Consob).

Performance measures

Explanatory notes and directors' report, include some performance indicators in order to present a better evaluation of financial and economic performance of the Group.
As regards those indicators, on December 3, 2015, CONSOB issued Communication no. 92543/15, which gives force to the Guidelines issued on October 5, 2015, by the European Securities and Markets Authority (ESMA) concerning the presentation of alternative performance measures in regulated information disclosed or prospectuses published as from July 3, 2016. These Guidelines, which update the previous CESR Recommendation (CESR/05-178b), are intended to promote the usefulness and transparency of alternative performance indicators included in regulated information or prospectuses within the scope of application of Directive 2003/71/EC in order to improve their comparability, reliability and comprehensibility. Accordingly, in line with the regulations cited above, the criteria used to construct these indicators are as follows:

- Gross Operating Profit: this is made up of the pre-tax result before financial income and expenses, depreciation and amortisation, provisions and impairment charges on assets made during the period and provisions;
- Net Operating Profit: this is made up of the pre-tax result before financial income and expenses;
- Pre-tax profit (loss): this is made up of the result for the period before income taxes.
- Net Working capital: this is made up of the inventory, account receivable, other current assets, net of account payables and other current liabilities.
- Net Financial Position: this is made up of cash and financial credit, net of bank short and medium-long terms financial debts and leasing.

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as at 31 December 2018
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet as at 31 December 2017
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Emilio Mussini

Sassuolo, 15 March 2019

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position

Figures at 31 December 2018

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	31-Dec-2018	RIF
NON-CURRENT ASSETS	**182,737**	
Goodwill	8,139	ANC1
Intangible assets	15,553	ANC2
Property, plant and equipment	124,840	ANC3
Equity Investments	161	ANC4
Deferred tax assets	14,426	ANC5
Other non-current assets	564	ANC6
Non-current Financial Assets	19,054	ANC7
CURRENT ASSETS	**256,813**	
Inventories	159,948	AC1
Receivables from customers	64,954	AC2
Due from tax authorities	9,160	AC3
Other current assets	4,659	AC4
Current Financial Assets	1,182	AC5
Cash and cash equivalents	16,910	AC6
TOTAL ASSETS	**439,550**	

LIABILITIES AND EQUITY	31-Dec-2018	
EQUITY	**167,062**	PN
Share capital	22,678	
Reserves	148,482	
Net profit (loss) for the year	(4,098)	
NON-CURRENT LIABILITIES	**120,479**	
Liabilities for employee benefits	5,066	PNC1
Deferred tax liabilities	7,612	PNC2
Provisions for risks and charges	4,506	PNC3
Other non-current liabilities	3,139	PNC4
Due to banks	76,578	PNC5
Due to other sources of finance	23,578	PNC6
CURRENT LIABILITIES	**152,009**	
Payables due to suppliers	88,342	PC1
Due to tax authorities	3,833	PC2
Other current liabilities	24,373	PC3
Due to banks	33,679	PC4
Due to other sources of finance	1,782	PC5
TOTAL LIABILITIES AND EQUITY	**439,550**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	31-Dec-2018	RIF
Inventories	159,948	AC1
Receivables from customers	64,954	AC2
Other current assets	13,819	AC3+AC4
CURRENT ASSETS	**238,721**	
Payables due to suppliers	(88,342)	PC1
Other current liabilities	(28,206)	PC2+PC3
CURRENT LIABILITIES	**(116,548)**	
NET WORKING CAPITAL	**122,173**	
Goodwill	8,139	ANC1
Intangible assets	15,553	ANC2
Property, plant and equipment	124,840	ANC3
Equity Investments	161	ANC4
FIXED ASSETS	**148,693**	
Receivables due beyond 12 months	564	ANC6
Liabilities for employee benefits	(5,066)	PNC1
Provision for risk and charge	(4,506)	PNC3
Provision for deferred taxes	6,814	ANC5+PNC2
Other liabilities due beyond 12 months	(3,139)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**(5,333)**	
NET CAPITAL EMPLOYED	**265,533**	
Short term financial assets	(16,910)	AC6
Short term financial indebtedness	34,279	PC4+PC5 -AC5
NET SHORT TERM FINACIAL INDEBTEDNESS	**17,369**	
Mid-Long term financial debt	81,102	PNC5+PNC6 -ANC7
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**81,102**	
NET FINANCIAL POSITION	**98,471**	
Group Shareholders' Equity	167,062	PN
SHAREHOLDERS' EQUITY	**167,062**	
TOTAL SOURCES OF FOUNDS	**265,533**	

PANARIAgroup®

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position

Figures at 31 December 2017

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	31-Dec-2017	RIF
NON-CURRENT ASSETS	**180,585**	
Goodwill	8,139	ANC1
Intangible assets	14,239	ANC2
Property, plant and equipment	126,005	ANC3
Equity Investments	300	ANC4
Deferred tax assets	12,467	ANC5
Other non-current assets	537	ANC6
Non-current Financial Assets	18,898	ANC7
CURRENT ASSETS	**250,951**	
Inventories	151,480	AC1
Receivables from customers	79,142	AC2
Due from tax authorities	6,953	AC3
Other current assets	5,091	AC4
Current Financial Assets	1,129	AC5
Cash and cash equivalents	7,156	AC6
TOTAL ASSETS	**431,536**	

LIABILITIES AND EQUITY	31-Dec-2017	
EQUITY	**171,309**	PN
Share capital	22,678	
Reserves	137,275	
Net profit (loss) for the year	11,356	
NON-CURRENT LIABILITIES	**122,258**	
Liabilities for employee benefits	5,531	PNC1
Deferred tax liabilities	7,834	PNC2
Provisions for risks and charges	4,569	PNC3
Other non-current liabilities	3,531	PNC4
Due to banks	78,988	PNC5
Due to other sources of finance	21,805	PNC6
CURRENT LIABILITIES	**137,969**	
Payables due to suppliers	83,198	PC1
Due to tax authorities	3,609	PC2
Other current liabilities	25,371	PC3
Due to banks	23,651	PC4
Due to other sources of finance	2,140	PC5
TOTAL LIABILITIES AND EQUITY	**431,536**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	31-Dec-2017	RIF
Inventories	151,480	AC1
Receivables from customers	79,142	AC2
Other current assets	12,044	AC3+AC4+AC5-(*)
CURRENT ASSETS	**242,666**	
Payables due to suppliers	(83,198)	PC1
Other current liabilities	(28,980)	PC2+PC3
CURRENT LIABILITIES	**(112,178)**	
NET WORKING CAPITAL	**130,488**	
Goodwill	8,139	ANC1
Intangible assets	14,239	ANC2
Property, plant and equipment	126,005	ANC3
Equity Investments	300	ANC4+ANC7 - (**)
FIXED ASSETS	**148,683**	
Receivables due beyond 12 months	537	ANC6
Liabilities for employee benefits	(5,531)	PNC1
Provision for risk and charge	(4,569)	PNC3
Provision for deferred taxes	4,633	ANC5+PNC2
Other liabilities due beyond 12 months	(3,531)	PNC4
ASSET AND LIABILITIES DUE BEYOND 12 MONTHS	**(8,461)**	
NET CAPITAL EMPLOYED	**270,710**	
Short term financial assets	(7,156)	AC6
Short term financial indebtedness	24,662	PC4+PC5 - (*)
NET SHORT TERM FINACIAL INDEBTEDNESS	**17,506**	
Mid-Long term financial debt	81,895	PNC5+PNC6 - (**)
NET MID-LONG TERM FINACIAL INDEBTEDNESS	**81,895**	
NET FINANCIAL POSITION	**99,401**	
Group Shareholders' Equity	171,309	PN
SHAREHOLDERS' EQUITY	**171,309**	
TOTAL SOURCES OF FOUNDS	**270,710**	

(*) CURRENT PORTION OF IRB **1,129**
Classified under current assets in the IFRS satatement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON - CURRENT PORTION OF IRB **18,898**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

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

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

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

NET FINANCIAL POSITION

(THOUSANDS OF EURO)

	31-Dec-2018	
Cash	(272)	
Other Cash and cash equivalents	(16,638)	
Securities held for sale	0	
Liquidity	**(16,910)**	**(*)**
Short-term financial assets	**(1,182)**	
Due to banks	7,352	
Current portion of long-term loans	26,327	
Other short-term financial debt	1,782	
Short-term financial indebtedness	**35,461**	
Net short-term financial indebtness	**17,369**	
Non-current portion of long-term loans	76,578	
Due to bondholders	0	
Other long-term financial debt	23,578	
Long-term financial indebtedness	**100,156**	
Long-term financial assets	**(19,054)**	
Net financial indebtness	**98,471**	**(**)**

Liquidity	**(16,910)**	**(*)**
(Subject of the IFRS Cash Flow Statement)		
Total NFP	**98,471**	**(**)**
(Subject of the financial cash flows as per Directors Report)		

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

(Thousands of Euro)	**31-Dec-2018**	
A - OPERATIONS		
Profit (loss) of the year	(4,098)	**A**
Depreciation and amortisation	21,099	**B**
Losses (gains) on assets disposal	-	**C**
Deferred tax liabilities (assets)	(2,240)	**D**
Non-monetary change in provisions for employee	(59)	**E**
Net change in provisions	862	**F**
Losses (gains) on assets disposal	(98)	**G**
Revaluation and writedown of equity investments	119	**H**
Cash flow (absorption) from operations prior to changes in	*15,585*	
(Increase)/(decrease) in trade receivables	14,967	
(Increase)/(decrease) in inventories	(7,052)	
(Increase)/(decrease) in trade payables	3,868	
Employee severance indemnities disbursement	(406)	
Net change in other assets/liabilities	(3,084)	
Cash flow (absorption)from operations due to changes in	*8,293*	**I**
Total (A) Cash flow from operations	**23,878**	
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(19,441)	**J**
Net investment in financial assets	7	**K**
Exchange differences on tangible and intangible assets	216	**L**
Acquisto d'azienda al lordo dell'Indebitamento fin.rio netto	-	**L**
Total (B) Cash Flow (absorption) from investment activities	**(19,218)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	(3,145)	**M**
Non- monetary changes recorded in equity	436	**N**
(Purchase) Sale of Treasury shares	-	
Net change on financial liabilities (net of New Loans/Loans	3,373	
New Loans	27,758	
Loan repayments	(22,310)	
Total (C) Cash Flow (absorption) from financing activities	**6,112**	
Opening net cash	**7,156**	
Change in the translation reserve	**(1,018)**	**O**
Net change in short-term net cash (A+B+C)	**10,772**	
Closing net cash	**16,910**	**(*)**

Financial cash flow
(thousands euro)

	31-Dec-2018	
Net financial position (debt) - beginning	**(99.4)**	
Net Result for the period	(4.1)	**A**
D & A	21.1	**B**
Net Variation Provisions	(1.4)	**D+E+F**
Non monetary changes	0.0	**C+G+H**
Internal operating Cash flow	**15.6**	
Change in net working capital and other assets and liabilities	8.3	**I**
Dividends	(3.1)	**M**
Net Investments	(19.2)	**J+K+L**
Changes in Equity	0.4	**N**
Exchange rate diff. from US$ financial statement conversions	(1.0)	**O**
Net financial position (debt) - final	**(98.5)**	**(**)**

CONSOLIDATED FINANCIAL STATEMENTS

Panariagroup Industrie Ceramiche Spa

PANARIAGROUP

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(THOUSANDS OF EURO)

Note	ASSETS	31-Dec-2018	31-Dec-2017
	NON-CURRENT ASSETS	**182,737**	**180,585**
1.a	Goodwill	8,139	8,139
1.b	Intangible assets	15,553	14,239
1.c	Property, plant and equipment	124,840	126,005
1.d	Equity Investments	161	300
1.e	Deferred tax assets	14,426	12,467
1.f	Other non-current assets	564	537
1.g	Non-current Financial Assets	19,054	18,898
	CURRENT ASSETS	**256,813**	**250,951**
2.a	Inventories	159,948	151,480
2.b	Trade Receivables	64,954	79,142
2.c	Due from tax authorities	9,160	6,953
2.d	Other current assets	4,659	5,091
2.e	Current Financial Assets	1,182	1,129
2.f	Cash and cash equivalents	16,910	7,156
	TOTAL ASSETS	**439,550**	**431,536**

Note	LIABILITIES AND EQUITY	31-Dec-2018	31-Dec-2017
3	**EQUITY**	**167,062**	**171,309**
	Share capital	22,678	22,678
	Reserves	148,482	137,275
	Net profit (loss) for the period	(4,098)	11,356
	NON-CURRENT LIABILITIES	**120,479**	**122,258**
4.a	Liabilities for employee benefits	5,066	5,531
4.b	Deferred tax liabilities	7,612	7,834
4.c	Provisions for risks and charges	4,506	4,569
4.d	Other non-current liabilities	3,139	3,531
4.e	Due to banks	76,578	78,988
4.f	Other non-current financial payables	23,578	21,805
	CURRENT LIABILITIES	**152,009**	**137,969**
5.a	Trade payables	88,342	83,198
5.b	Due to tax authorities	3,833	3,609
5.c	Other current liabilities	24,373	25,371
5.d	Due to banks	33,679	23,651
5.e	Other current financial payables	1,782	2,140
	TOTAL LIABILITIES AND EQUITY	**439,550**	**431,536**

PANARIAGROUP

CONSOLIDATED INCOME STATEMENTS
(THOUSANDS OF EURO)

Note		31-Dec-2018		31-Dec-2017	
6.a	**REVENUES FROM SALES AND SERVICES**	**370,995**	**94.7%**	**384,580**	**92.7%**
	Change in inventories of finished products	9,426	2.4%	18,202	4.4%
6.b	Other revenues	11,145	2.8%	12,075	2.9%
	VALUE OF PRODUCTION	**391,566**	**100.0%**	**414,857**	**100.0%**
7.a	Raw materials	(117,203)	-29.9%	(114,861)	-27.7%
7.b	Services, leases and rentals	(158,315)	-40.4%	(158,973)	-38.3%
	of whic, related party transactions	*(5,544)*	*-1.4%*	*(5,478)*	*-1.3%*
7.c	Personell costs	(93,705)	-23.9%	(94,501)	-22.8%
7.d	Other operating expenses	(3,026)	-0.8%	(3,783)	-0.9%
	PRODUCTION COSTS	**(372,249)**	**-95.1%**	**(372,118)**	**-89.7%**
	GROSS OPERATING PROFIT	**19,317**	**4.9%**	**42,739**	**10.3%**
8.a	Amortisation and depreciation	(21,099)	-5.4%	(22,089)	-5.3%
8.b	Provisions and writedowns	(3,475)	-0.9%	(1,732)	-0.4%
	NET OPERATING PROFIT	**(5,257)**	**-1.3%**	**18,918**	**4.6%**
9.a	Financial income (expense)	(1,026)	-0.3%	(3,699)	-0.9%
	PRE-TAX PROFIT	**(6,283)**	**-1.6%**	**15,219**	**3.7%**
10.a	Income taxes	2,185	0.6%	(3,863)	-0.9%
	NET PROFIT FOR THE PERIOD	**(4,098)**	**-1.0%**	**11,356**	**2.7%**
	BASIC AND DILUTED EARNING PER SHARE	**(0.090)**		**0.250**	

Since Jenuary 1st, 2018 the accounting principle IFRS 15 (Revenues) came into force.
The application of that principle implied the reclassification of some voices for the Group, before that moment enrolled in “financial income and expenses” and now account as Revenue reduction, because their nature is considered as variable in the scope of the standard.
Regarding this aspect, the data exposed at 31st of December 2018 are not homogeneous compared to the classification adopted the 31st December 2017.
For a better comprehension of the effects, in the management report 2017th data have been re-exposed considering a possible application of the IFRS 15.

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PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(THOUSANDS OF EURO)

	31/12/2018	31/12/2017
NET PROFIT (LOSS) FOR THE PERIOD	**(4,098)**	**11,356**
Other components of comprehensive income that will be reclassified later to after-tax profit	**3,241**	**(9,140)**
Exchange rate differences from foreign operations	2,560	(7,730)
Profit (loss) on interest rate hedging transactions accounted in accordance with the Cash Flow Hedge method	707	(1,481)
Other components of comprehensive income that will NOT be reclassified later to after-tax profit	(11)	(14)
Profit (loss) on Joint Venture - accounted with Equity Method	(15)	85
Utili (Perdite) da rivalutazione su piani a benefici definiti	**86**	**20**
Other	86	20
COMPREHENSIVE INCOME FOR THE PERIOD	0	0
	(771)	**2,236**

PANARIAGROUP

Statement of changes in equity from 1 January 2017 to 31 December 2018

(THOUSANDS OF EURO)	*Share Capital*	*Share premium reserve*	*Revaluation reserve*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Exchange adjustment reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2017	**22,678**	**60,784**	**4,493**	**3,958**	**46,197**	**10,265**	**1,279**	**11,349**	**11,215**	**172,218**
Net result for the period									11,356	11,356
Other comprehensive profit (loss)					91	(7,730)	(1,481)			(9,120)
Total gains (losses) booked directly to equity					**91**	**(7,730)**	**(1,481)**		**11,356**	**2,236**
Other										
Allocation of net profit for year 2015				167	3,172			7,876	(11,215)	
Distribution of dividends					(3,145)					(3,145)
Balance as of 31.12.2017	**22,678**	**60,784**	**4,493**	**4,125**	**46,315**	**2,535**	**(202)**	**19,225**	**11,356**	**171,309**
First time adoption IFRS 9					(331)					(331)
Balance as of 01.01.2018	**22,678**	**60,784**	**4,493**	**4,125**	**45,984**	**2,535**	**(202)**	**19,225**	**11,356**	**170,978**
Net result for the period									(4,098)	(4,098)
Other comprehensive profit (loss)					60	2,560	707			3,327
Total gains (losses) booked directly to equity					**60**	**2,560**	**707**		**(4,098)**	**(771)**
Other										
Allocation of net profit for year 2017				241	1,440			9,675	(11,356)	
Distribution of dividends					(3,145)					(3,145)
Balance as of 31.12.2018	**22,678**	**60,784**	**4,493**	**4,366**	**44,339**	**5,095**	**505**	**28,900**	**(4,098)**	**167,062**

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT
(THOUSANDS OF EURO)

(in thousands of Euro)	December, 31 2018	2017
A - OPERATING ACTIVITIES		
Profit (loss) of the year	(4,098)	11,356
Depreciation and amortisation	21,099	22,089
Losses (gains) on assets disposal	(98)	(169)
Deferred tax liabilities (assets)	(2,240)	924
Non-monetary change in provisions for employee severance indemnities	-59	48
Net change in provisions	863	(808)
Tax effect on elimination of intercompany exchange rates	119	101
Revaluation and writedown of equity investments	-	186
Cash flow (absorption) from operations prior to changes in working capital	*15,586*	*33,727*
(Increase)/(decrease) in trade receivables	14,967	(1,027)
(Increase)/(decrease) in inventories	(7,052)	(16,798)
(Increase)/(decrease) in trade payables	3,868	4,297
Employee severance indemnities disbursement	(406)	(408)
Net change in other assets/liabilities	(3,084)	3,010
Cash flow (absorption)from operations due to changes in working capital	*8,293*	*(10,925)*
Total (A) Cash flow from operations	**23,879**	**22,801**
B - INVESTMENT ACTIVITY		
Net investment in tangible assets	(17,236)	(31,864)
Net investment in intangible assets	(2,205)	(2,515)
Net investment in financial assets	7	(413)
Exchange differences on tangible assets	216	222
Total (B) Cash Flow (absorption) from investment activities	**(19,218)**	**(34,570)**
C - FINANCING ACTIVITY		
Increase in capital		
Distribution of dividends	(3,145)	(3,145)
Non- monetary changes recorded in equity	436	(1,145)
Net change on financial liabilities (net of New Loans/Loans repayments)	3,373	(10,175)
New Loans	27,758	45,628
Loan repayments	(22,310)	(29,603)
Total (C) Cash Flow (absorption) from financing activities	**6,112**	**1,560**
Opening net cash (indebtedness)	**7,156**	**16,995**
Change in the translation reserve	**(1,018)**	**369**
Net change in short-term net cash (indebtedness) (A+B+C)	**10,772**	**(10,208)**
Closing net cash (indebtedness)	**16,910**	**7,156**
Supplementary information:		
Interest paid	817	853
Income taxes paid	1,782	2,988

For a better understanding of the exchange rate effect on the Net Financial Position, a cash flow presentation method has been used; in this format, the changes in the individual components of equity are “net” of the exchange rate effect which is incorporated in full in the item “change in the translation reserve”. This item represents the actual impact of the change in exchange rates on the Group’s Net Financial Position.
The cash flow statement, shown above, shows movements of cash and cash equivalents in compliance with IAS 7. For a better understanding of the overall financial evolution, the Directors’ Report includes a summarised cash flow statement, which highlights the movements of the Net Financial Position, as a whole.

EXPLANATORY NOTES

Panariagroup Industrie Ceramiche Spa

INTRODUCTION

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

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

The consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree no. 38/2005.
The term IFRS is understood as including all of the international accounting standards ("IAS"), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").

The accounting policies and reporting formats used for preparing these consolidated financial statements do not differ from those applied since adopting IFRS, except for the newly introduced standards and the amendments indicated below in these explanatory notes.

The currency used to draw up the consolidated financial statements for the period 1 January – 31 December 2018 (the "Consolidate financial Statements") is the Euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled "Accounting Principles".

In order to clearly disclose figures in the financial statements, pursuant to provisions set out by "*IAS 1 - Presentation of Financial Statements*", paragraph 55 ("*An entity shall present additional line items (...), headings and subtotals when such presentation is relevant to an understanding of the entity's financial position*"), some changes were made to the balance sheet with respect to the previous year, namely:

- in the "Non-current assets" section, the line previously named "Financial assets" was broken down into items "Equity investments" and "Non-current financial assets"
- in the "Current assets" section, the line previously named "Other current assets" was broken down into items "Other current assets" and "Current financial assets";
- in the "Current liabilities" and "Non-current liabilities" sections, the line previously named "Due to banks and other sources of finance" was broken down into items "Due to banks" and "Other financial payables";

We deem that the new format would permit a prompter detection of financial assets and liabilities that, together with items "Cash and cash equivalents" and "Due to banks", make up the Net Financial Position.

Lastly, the disclosure order of items was changed from a declining liquidity format, as elected during the IFRS transition phase, to an increasing liquidity format.

The consolidated financial statements include:

- the consolidated balance sheet as at 31 December 2018 compared with the consolidated balance sheet as at 31 December 2017. In particular, the balance sheet has been drawn up in an increasing liquidity format, with current and non-current assets and liabilities shown separate, based on a 12-month operating cycle.

In addition, as required by CONSOB resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately in the balance sheet.

- the consolidated income statement for 2018, compared with that for 2017.

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

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

  As required by CONSOB resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately in the income statement.

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

- The statement of consolidated comprehensive income for 2018 with comparative figures for the year 2017, presented in accordance with the requirements of IAS 1 revised.

- the consolidated cash flow statement for 2018 and 2017. The indirect method has been used in drawing up the cash flow statement, which means that the profit or loss for the period has been adjusted for the effects of transactions of a non-monetary nature, for any deferral or provision for previous or future years' operating receipts or payments, and for any elements of revenue or cost related to the cash flows deriving from investment or financial activity and from changes in items that comprise working capital;

- the statement of changes in consolidated equity from 1 January 2017 to 31 December 2018.

- the explanatory notes (with related attachments).

Consolidated and separate financial statements have been approved by the Board of Directors on 15 March 2019.

1) GENERAL INFORMATION ON THE GROUP

The companies that make up the Panaria Group produce and sell ceramic tiles for floors and wall coverings. The Group's products are sold in more than 60 countries under eight distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo, Blustyle, Margres, Love Tiles and Florida Tile.

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

The other companies included in the scope of consolidation are:

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

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

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

The scope of consolidation did not change with respect to 31 December 2017.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements for the year ended 31 December 2018 include the financial statements of Panariagroup Industrie Ceramiche S.p.A. and of those companies over which it exercises direct or indirect control, as defined in IFRS 10.
This standard states that control over another enterprise exists when the company has the power to determine its financial and operating policies so that the company can obtain benefits from the other's activity.

Subsidiaries are consolidated from the date on which the Group takes over control and are excluded from the scope of consolidation from the date on which such control ceases to exist.
Subsidiaries consolidated are 100% controlled directly or indirectly and therefore are not present factual control situations or exercised significant judgments.

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

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

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

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

Joint venture companies

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 joint venture companies are accounted for under the equity method.

As at 31 December 2018, the Group held a joint venture company (JVC) in an Indian society, the AGL Panaria Private Ltd., that is operating in the commercialization of ceramic surfaces with brand name Bellissimo (Panariagroup property's) in Indian market. That participation, that has been initially surveyed at cost, has been evaluated at Net Assets method's since 2013, referring to an accounting situation coherent with the temporal horizon of the Group's Consolidate financial statements, planned in application of the same account principles. The financial statement of the indian's society in join venture, as a local praxis, is prepared at March, the 31st.
Every year an evaluation is established to verify if facts and circumstances have changed that could change the equal relationship between the Parties participating in the Joint Venture agreement.
Every year, an evaluation will be carried out to verify if facts or circumstances have changed so much to modify the equal partnership between the Parts attending the Joint Venture agreement.

Measurement criteria

General principles

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value, and on a going concern basis. In fact, the Group has determined that there are no uncertainties about business continuity.

The accounting policies used to prepare the consolidated financial statements for the year ended 31 December 2018 do not differ from those used to draft the consolidated financial statements for the year ended 31 December 2017, except for the accounting standards, amendments and interpretations applicable from 1st January 2018.

IFRS 9 – Financial Instruments

The standard replaces IAS 39 "Financial instruments: detection and evaluation" since the financial statements started the 1st of January 2018 or next, collecting the three aspects of the financial instruments' accounting: classification and evaluation; impairment; and hedge accounting.

Classification and measurement

The Group verified classification and measurement methodology used for financial instruments according to IAS 39 and they do not identify significant impact with respect to the new criteria established by IFRS 9.

All financial assets are recognised at fair value, including transaction costs. According to IFRS 9, financial liabilities are not measured at fair value, including transaction costs in the case of those

not measured at fair value through profit and loss. After initial recognition, financial liabilities are measured at amortized cost or at fair value, in the presence of specific circumstances. In the case of financial liabilities for which the fair value option has been adopted for initial recognition, the portion of fair value changes due to the own credit risk is recognized to OCI. Financial liabilities qualified as contingent consideration are measured at fair value through profit and loss.

Impairment

According to IFRS 9, the Group adopted, starting from 1 January 2018, a new impairment model for all financial assets not valued at fair value through profit and loss and for other activities falling within the scope of application of principle. This new model is based on the determination of expected losses (expected credit loss - ECL) according to a simplified approach. In particular, for trade receivables the Group mainly applies an overlay approach based on dividing them into specific clusters, taking into account the geographical area, credit rating and the presence of any insurance coverage, applying the impairment model based on expected losses through the operational exemplification of the provision matrix. Only if the trade receivables are deemed individually significant by the management and specific information is available about the significant increase in credit risk, the Group applies an analytical approach. For all other financial assets different than trade receivables, contract assets and lease receivables, the Group applies the general approach based on monitoring credit risk trends starting from origination. The calculation of the expected credit loss, based on 12 month's timeframe in the event that the date of accounting closure did not show any significant increase in credit risk; otherwise, the reference timeframe for the calculation will be the entire life of the asset, according to a lifetime approach.

At first time adoption of IFRS 9, the Group recognized further impairment losses on trade receivables for Euro 440 thousand, which led to an increase in deferred taxes of Euro 109 thousand and a decrease in "Other Reserves ”of Euro 331 thousand as of January 1, 2018.

	Write-offs for impairment as required by IAS 39 at December, 31 2017	Restatement	ECL according IFRS 9 at January 1, 2018
	(€ 000)	(€ 000)	(€ 000)
Loans and Trade Recivables according to IAS 39/ Financial Assets at amortized cost as for IFRS 9 and contractual activities	5,534	440	5,974
	5,534	440	5,974

Hedge accounting

The Group has adopted a new model that complies with the new IFRS 9 standard, applied prospectively. Under the new approach, a hedging relationship is effective only if it meets the following requirements: (i) existence of an economic relationship between the hedging instrument and the hedged item; (ii) credit risk is not dominant with respect to changes in value; and (iii) the hedging ratio (called "hedge ratio") is the same used for risk management purposes or the amount covered by the hedged item and the quantity of the hedging instrument used to hedge the hedged item. As of December 31, 2018, efficacy tests were carried out in order to verify new elements introduced in terms of hedge accounting, without the need for interruptions.

IFRS 15 - Revenue from contracts with customers

The new standard replaces the previous IAS 11 - Construction Contracts, IAS 18 - Revenue, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers, and SIC 31 - Revenue-Barter Transactions Involving Advertising Services, and applies to all revenues from contracts with customers, unless these contracts fall under the scope of other standards. The standard introduces a new model for recognising revenues from contracts with customers based on five phases: (i) identification of the contract with the customer; (ii) identification of the performance obligations due to the customer in exchange for consideration; (iii) identification of the contract consideration; (iv) allocation of the consideration to the individual performance obligations; and (v) recognition of the revenue when the relative performance obligation is satisfied.

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 standard entails that the entity exercises judgement, which takes into account all relevant facts and circumstances in applying each stage of the model to contracts with its customers.

Moreover, the standard specifies the accounting treatment of incremental costs associated with obtaining a contract and costs directly linked to completing a contract.

The Group applies the new standard from the mandatory effective date, using the modified retrospective approach, with reference to contract not completed at first-time adoption date (1 January 2018).

During 2017 and 2018 the Company analysed the effects deriving from the application of IFRS 15, which showed that: (i) all sales transactions fall within the logic of point-in-time recognition; (ii) contracts with customers almost never include a variable consideration such as right of return or rebates based on milestones of volumes; (iii) extended guarantees are not present: the acceptance by the customer is contextual to receipt of goods; (iv) no issues emerged relating to the representation of bundled services; (v) the Company does not receive long-term advance payments from customers.

Therefore, the application of the new standard did not entail any change in the methods for determining revenues deriving from contracts with customers within the financial statements for the year ended December 31, 2018, except for an item previously included under Financial Income and Expenses, reclassified as a reduction of Revenues, as it is deemed to have the nature of a variable fee in the context of the standard.

Moreover, the Group evaluated the necessary alignment required by IFRS 15 concerning other items of the main financial statement schedules, not disclosing changes in the presentation of the data.

Amendments to IAS 40 - Transfers of Investment Property
The amendments clarify when an entity should transfer an investment property, including real estate properties under construction or development that are disclosed or not disclosed under item Investment property. The amendment specifies that a change in use occurs when the building fulfils, or ceases to fulfil the definition of real estate property and there is evidence of a change in use. A simple change in the management intentions concerning the property is not an evidence of a change in use. No impact is expected on the Group's financial statements.

Amendments to IFRS 2 - Classification and measurement of share-based payments
The IASB issued the amendments to IFRS 2 Share-based Payment that consider three main issues: effects of a vesting condition on the measurement of a cash-settled, share-based payment transaction; the classification of a share-based payment transaction settled net of tax withholdings; and the accounting when a modification occurs of share-based payment transactions from cash-settled to equity-settled. Upon adoption, the entities shall apply the amendments without restating the previous reporting periods; nevertheless, a retrospective application is allowed if it is applied for all three amendments and other criteria are fulfilled. The accounting treatment for the Group for share-based payments settled in cash is consistent with the approach clarified in the amendments. Furthermore, the Group did not perform share-based payment transactions with net liquidation for obligations related to tax withholdings and did not make any changes to terms and conditions of its share-based payment transactions. These amendments are not significant for the Group.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments concern the problems arising from the adoption of IFRS 9, the new standard on financial instruments, before adopting IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments envisage two options for entities that are issuers of insurance contracts: a temporary exemption in applying IFRS 9 and the overlay approach. These amendments are not significant for the Group.

Amendments to IAS 28 - Investments in Associates and Joint Ventures
The amendments clarify that, on initial recognition and with reference to the specific investment, an entity that is a venture capital organisation, or other qualified entity, might elect to measure its interests in associates and joint ventures at fair value through profit or loss. If an entity is not an investment entity, but has an investment in an associate or joint venture, which is an investment entity, when applying the equity method in measuring its equity investment (in the associate or joint venture), this entity might decide to maintain the measurement at fair value applied by the investment entity (either an associate or a joint venture). This choice is made separately for each associate or joint venture, which is an investment entity (in terms of occurrence) at the latest of the following dates: (a) initial recognition of the equity investment in the associate or joint venture, which is an investment entity; (b) when the associate or joint venture becomes an investment entity; and (c) when the associate or joint venture, which is an investment entity, becomes parent company for the first time. These amendments have no impact on the Group's financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions envisaged in paragraphs E3-E7 of IFRS 1 were deleted as no longer within the scope of the standard. This amendment has not impact on the Group financial statements.

New accounting standards and amendments but not yet entered into force and not adopted in advance by the Group

The standards, amendments and interpretations are indicated below which, at the date of drafting of the Group's consolidated financial statements, had already been issued but not yet entered into force and not adopted in advance by the Group.

IFRS 16 – Leases

IFRS 16 was published in January 2016 and replaced IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases – 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 recognise 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.

Short-term leases (e.g. within 12 months), and those in which the underlying asset has a low value (e.g. personal computers), are excluded from the lessees' recognition requirements. At the inception date of the lease, the lessee shall recognise a liability against lease payments (i.e. lease liabilities) and an asset representing the right of use of the underlying asset for the duration of the contract (i.e. the right of use of the asset). The lessees shall provide for a separate recognition of expenses and interest of lease liabilities and amortisation of the right of use of the assets.

Lessees shall also remeasure lease liabilities upon occurrence of specific events. Lessees shall in general recognise the amount of the remeasuring of lease liabilities as an adjustment to the right of use of the asset.

IFRS 16 is effective for years starting on or after 1 January 2019. An early application is permitted, but not before the entity has adopted the IFRS 15 standard. Lessees can elect to apply the standard by using either a fully retrospective approach or a modified retrospective approach. Transitory provisions envisaged by the standard permit some facilitations.

Given the large number of lease contracts and the significance of the changes enacted by the new standard, in 2018 the Group analysed the effects resulting from its application.

Then, all lease contracts were mapped and collected, identifying three main categories: real estate leases, automotive leases, and leases of industrial vehicles (primarily forklifts).

The Group estimated the effects as of December 31, 2018 by using a "full retrospective" approach as of 01/01/2018.

The adoption of IFRS 16 will lead to an improvement in the Gross Operating Margin (hypothetical estimated value for period 2018 of Euro 13,6 million) and in the Net Operating Margin, meanwhile an increase in financial charges. This effect is due to the change in the accounting of leasing expenses, previously classified as operating leases according to IAS 17. Moreover, the new standard will recognise right of use of the asset for Euro 118 million and lease liabilities, concerning the future financial commitments related to these contracts, for Euro 124 million.

The adjustment of its IT and administrative procedures is in progress both for the purposes of preparing the comparative data on first-time application, and for managing the complex accounting required by the standard, starting from 1 January 2019.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, which establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. When effective, the IFRS 17 standard will supersede the IFRS 4 "Insurance Contracts" standard, issued in 2005. IFRS 17 applies to all types of insurance contracts (e.g.; life, non-life, direct insurance, reinsurance), regardless of the type of issuer, as well as to some guarantees and financial instruments with a discretionary participation feature.

The IFRS 17 standard will be in force for annual reporting periods beginning on or after 1 January 2021, and will require the disclosure of comparative balances. Early application is permitted; in this case, the entity must have also adopted IFRS 9 and IFRS 15 as at the date of IFRS 17 first time application, or earlier. This standard is not applicable for the Group.

IFRIC 23 Uncertainty over Income Tax Treatment

The interpretation published on June 8, 2017 by IASB, clarifies the application of the recognition and valuation requirements in IAS 12 - "Income taxes" in case of uncertainty on the treatment of income taxes.

The interpretation specifically concerns the following issues: i) the case in which an entity estimates uncertain tax treatments separately; (ii) the assumptions of the entity on the assessment of tax treatments by tax authorities; (iii) how an entity determines taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates; (iv) how an entity estimates changes in facts and circumstances.

The Interpretation does not add news disclosure requirements, however it points out the requirements existing in IAS 1 relating to information on judgments, information on the assumptions made and other estimates and information concerning contingent taxes in IAS 12 "Income taxes". The interpretation is applicable for annual financial period starting on 1 January 2019 or later, and provides a choice between two transition methods: (i) retroactive approach that uses IAS 8 - "Accounting principles, changes in accounting estimates and errors ", only if the application is possible without the use of hindsight, or (ii) retroactive application with cumulative effect of the initial demand recognized as an adjustment to the shareholders' equity at the date of the initial request and without restating the comparative information. The date of the initial application is the beginning of the annual reference period in which an entity first applies this Interpretation.

Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures

The amendments to IAS 28 issued by IASB in 2017, clarify how entity have to apply IFRS 9 for long-term interests in an associate or joint venture, for which the equity method is not adopted but which, in substance, form part of the net investment in the associate or joint venture (long-term interests). The amendments should be effective from 1 January 2019.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation –

Pursuant to IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income, provided that contractual cash flows are "solely payments of principal and interest on the reference amount" (SPPI criterion) and the instrument is classified in the appropriate business model. Amendments to IFRS 9 clarify that a financial asset exceeds the SPPI criterion regardless of the event or circumstance that caused the early termination of the contract and regardless which party pays or receives compensation for early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019. Early application is permitted. These amendments did not impact the Group financial statements.

<u>Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</u>

The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of an investee, which is sold or contributed to an associated company or a joint venture. The amendments clarify that the gain or loss resulting from the sale or the contribution of assets that constitute a business between an investor and its associate or joint venture, as defined in IFRS 3, shall be recognised in full. The gain or loss resulting from the sale or contribution of assets that do not constitute a business, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB deferred indefinitely the application date of these amendments. However, if an entity elects for an early application, it should be made prospectively. The Group will apply these changes when they become effective.

<u>Amendments to IAS 19 Income Taxes: "Plan Amendment, Curtailment or Settlement"</u>

In February 2018, IASB issued "Amendments to IAS 19", clarifying the method by which companies must calculate pension expenditures when there are changes to an established pension plan. IAS 19 "Employee Benefits" specifies how a company accounts for a defined benefit pension plan. When there is an amendment to a plan - an adjustment, reduction, or settlement, IAS 19 requires the company to re-measure the net assets or liabilities for the defined benefits. The amendments compel companies to use updated assumptions from this re-calculation to determine the cost of the current service and net interest for the rest of the reference period after the plan has been amended. The amendments will become effective from 1 January 2019.

<u>Annual improvements to IFRSs - 2015-2017 Cycle</u>

In 12 December 2017 the IASB issued some amendments to IAS 12 (Income Taxes) which clarifies that the impact of income taxes on dividends (profit distribution) should be recognized in the income statement, regardless of as the tax arises, to IAS 23 (Borrowing Costs) which clarifies that a company treats as part of a general debt any debt originally realized for the development of an asset when the asset itself is ready for the intended use or for the sale, to IFRS 3 (Business Combination), clarifying how a company must re-measure the shareholding previously held in a joint operation, once control of the business is obtained and IFRS 11 (Joint Arrangements) for which a company does not revalue the stake previously held in a joint operation when it obtains joint control of the asset. The changes will come into force on 1 January 2019. Their early application is however permitted.

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

The main accounting policies applied are described below.

Business combinations

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

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

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

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

Goodwill

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

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

Intangible assets

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

Bought-in software licences are capitalised on the basis of the costs incurred for their purchase and to bring them into use. Amortisation is calculated on a straight-line basis over their estimated useful life. In the absence of specific indications, for software the useful life is generally considered to be 5 years. For the SAP management software a useful life of at least 10 years has been considered.

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

Internally generated intangible assets - research and development costs

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

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

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

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

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

Trademarks and patents

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

Tangible fixed assets

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

Any costs incurred after the purchase are only capitalised if they add to the future economic benefits inherent in the asset to which they refer. All other costs are booked to the income statement when incurred. In particular, ordinary or cyclical repairs and maintenance costs are booked directly to the income statement in the period in which 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 and light buildings	4%-10%
Plant and machinery	10%-15%
Industrial equipment	25%
Electronic office machines	20% - 25%
Furniture and showroom furnishings	10% - 20%
Vehicles	25%

Land is not depreciated.

Depreciation starts when the assets are ready for use.

If a depreciable asset is made up of distinctly identifiable elements that have significantly different useful lives, depreciation is charged separately on each of the elements making up the asset, based on the so-called component approach.

Assets held on the basis of finance leases are depreciated over their estimated useful life, in the same way as for assets owned, or over the period of the lease contract if this is less.

Gains and losses on the sale or disposal of fixed assets are calculated as the difference between the sale proceeds and the net book value of the asset and are to be booked to the income statement of the period in which the sale or disposal takes place.

Impairment losses

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

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

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

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

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

Leases

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

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

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

Inventories

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

Receivables from customers

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

Financial assets

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

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

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

Cash and cash equivalents

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

Provisions

Provisions are recognised in the financial statements when the Group has a clear obligation as the result of a past event and it is probable that an outflow of resources 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.
The standard sets forth the obligation of recognising actuarial gains and losses in the statement of comprehensive income.

Payables due to suppliers

Payables due to suppliers 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 payables due to suppliers 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.

Deletion

A financial liability is deleted when the underlying obligation of the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another of the same lender, on substantially different terms, or the conditions of an existing liability are substantially changed, such exchange or modification is treated as an accounting cancellation of the original liability, accompanied by the recognition of a new liability, with entry in the statement of profit / (loss) for the year of any differences between the carrying amounts.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement
The Group uses derivative financial instruments such as interest rate swaps to hedge its risks on interest rate. These derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is subscribed and are subsequently measured at fair value again. Derivatives are accounted for as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The portion of profit or loss on the hedged instrument, relating to the effective hedging portion, is recognized in the statement of other comprehensive income in the "cash flow hedge" reserve, while the ineffective portion is recognized directly in the profit/loss statement for the year. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.

At the start of a hedging transaction, the Group formally designates and documents the hedging relationship, to which it intends to apply hedge accounting, its own objectives in risk management and the strategy pursued. The documentation includes the identification of the hedging instrument, the hedged element or the operation, the nature of the hedged risk and the way in which the Group will assess the effectiveness of the changes in the fair value of the hedging instrument in offsetting the Exposure to changes is the fair value or cash flows of the hedged element attributable to the hedged risk. It is expected that these hedges will be highly effective in offsetting the variations in cash flows and are valued on a continuous basis in order to determine whether such hedges have effectively proven to be highly effective in the financial years for which they have been designated as hedging transactions. The hedging relationship meets the eligibility criteria for accounting for hedging transactions if it meets all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not prevail over changes in value resulting from the above-mentioned economic relationship;
- the hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the Group actually covers and the quantity of the hedging instrument that the Group actually uses to cover this quantity of hedged item.

Treasury shares

Treasury shares are recorded as a direct reduction of shareholders 'equity: the profits and losses realized from their disposal are directly charged to the shareholders' equity reserves.

Revenue from contracts with clients

Revenues from contracts with customers are recognized on the basis of the following 5 steps: (i) identification of the contract with the customer; (ii) identification of contractual commitments (performance obligations) to be transferred to the customer in exchange for the consideration; (iii) identification of the consideration for the contract; (iv) allocation of the consideration to the individual performance obligations; (v) recognition of revenue when the relative performance is satisfied.
Revenues are recognized for an amount that reflects the consideration to which the Group deems entitled at the fulfilment of the obligation to do, with the transfer of the good or service when the customer acquires control. The Group's main revenue stream is the "sale of goods".

a) Sale of goods

Revenue recognition takes place at the specific time when the activity control has been transferred to the customer, generally at the time of delivery of the asset based on the "Incoterm" clauses used.

b) Variable consideration

If the amount promised in the contract includes a variable amount, the Group estimates the amount of the consideration to which it will be entitled in exchange for the transfer of the goods to the customer. The variable consideration is estimated at the time the contract is stipulated and it is not possible to record it until it is highly probable that when the uncertainty associated with the variable consideration is subsequently resolved, there will be no significant decrease in the amount to be deducted of the cumulative revenues that have been booked. Certain contracts for the sale of ceramic surfaces provide customers with a right of return and volume discounts. Returns and volume discounts give rise to variable fees.

- Return right

Some contracts allow the customer to return the goods within a certain period of time. The Group uses the expected value method to estimate the assets that will not be returned since this method is the best to predict the amount of the variable consideration to which the Group will be entitled. The guide of IFRS 15 on the limitations on the recognition of the variable consideration is applied for the determination of the amount of the variable payment that can be included in the price of the transaction. For assets that should be returned, instead of revenues, the Group records a liability for repayments. The right to return an asset (and the corresponding adjustment of the cost of sales) is also recognized for the right to receive the goods from the customer.

- Discounts on purchase volume

The Group grants retroactive discounts to some customers where the quantity of products purchased during the period exceeds a threshold determined in the contract. These discounts are compensated with the amounts that the customer must pay. To estimate the variable consideration related to the expected discounts, the Group applies the most probable amount method for contracts with a single volume discount threshold and the expected value method for contracts with multiple thresholds. The choice of the best method to use to predict the amount of the variable fee depends on the number of thresholds present in the contract. The Group then applies the guidance on the recognition of the variable consideration and enters a liability for reimbursements for the expected future discounts.

- Year-end premiums and financial discounts

The Group grants its customers retrospective year-end discounts on all products purchased by the customer when the quantity and / or value of the products purchased during the year reaches the milestones included in the contract. The Group estimates the volume of expected discounts using an approach based on the weighted average probability of the premium, in turn based on the analysis of the historical series of milestones reached by specific customers and accounts them in a specific item included in current liabilities. These amounts are usually settled later by issuing credit notes.
The Group also grants financial discounts in the event that the customer pays / will pay the invoice in a shorter time than the "ordinary" or contractually established term. Cash discounts are accounted for during the year on a prospective basis (based on the contract and on the history of the customer's payments) at the time of recording the revenues deriving from the sale of the promised goods.

- Payables to customers

The Group contractually grants "payable to customer" in the form of:

- co-marketing fees: contribution to the advertising costs that the customer will support during the year, often determined as a percentage of annual turnover;
- bonuses in kind: free delivery of square meters of tiles whose value is determined based on a contractually predetermined percentage on the value of the products purchased in the period.

The accounting criterion currently used is similar to what has already been described for the year-end premiums and financial discounts, to which reference is made.
If the consideration payable to a customer is not paid in exchange for a distinct good or service, it is recognized as a reduction of the total transaction price (and therefore of the item of the Income Statement consolidated Revenues from sales and services) when the Group recognizes the revenue for the sale of the promised goods or, if more recent, when the Group pays or promises to pay the customer's consideration.

<u>Assets and liabilities from restitution rights</u>

Activities for the right of return

The activity for the right of return represents the right of the Group to recover the assets that are expected to be returned by customers. The asset is valued at the previous book value of inventories net of any recovery costs including possible reduction in the value of the returned products. The Group periodically updates the estimate with reference to the expected amount of returns from customers, as well as any further reductions in the value of the returned products.

Liabilities for repayments
The liability for repayments represents the obligation to repay in part or all of the consideration received (or to be received) from the customer and is valued based on the value that the Group expects to have to return to the customer. The Group updates its estimates of liabilities for repayments (and the corresponding change in the transaction price) at the end of each reference period. Please refer to the note on the accounting principles reported above on the variable fees.

Foreign currency transactions

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

For the presentation of the consolidated financial statements, the assets and liabilities of foreign subsidiaries that use functional currencies other than the euro are translated at the exchange rates ruling on the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. The emerging exchange differences are booked to the translation reserve in equity. This reserve is recognized in the income statement as income or as a charge in the period in which the related subsidiary is sold.

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

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

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

	31/12/2018	**31/12/2017**
Average exchange rate for the period	1.1810	1.1297
Current exchange rate at the balance sheet date	1.1450	1.1993

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

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

Government grants

Government grants for capital investments are booked to the income statement over the period needed to match them against the related costs, being treated in the meantime as deferred income.
In particular, they are booked when there is reasonable certainty that the company will comply with the requirements for the allocation of funds, and that the grants will be received.

Income taxes

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

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

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

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

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

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

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

Significant accounting policies based on the use of estimates

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

Goodwill – Estimate of the degree of recoverability

The Group is showing various amounts of goodwill that arose on company acquisitions.
These amounts of goodwill are not amortised, but tested at least once a year for impairment, in accordance with the provisions of IAS 36, based on forecasts of expected cash flows over coming years. If future business and market scenarios differ from those assumed when preparing the forecasts, the determination of the recoverable amount could lead to different results and consequently the value of goodwill could be subject to write-downs.
The determination of the recoverable amount originates from the long-term plans approved by the Board of Directors, following the impairment procedure approved by the same.
The analyses are prepared in light of the outlook referring to the relevant macroeconomic scenarios and the factors of uncertainty that could impact on the main market variables.
The significant assumptions underlying the impairment test are also subject to sensitivity analysis, the results of which are critically analysed by management.

Inventory valuation and write-down provision

The Group values its inventories at the lower of cost and estimated realisable value, based on evaluations of market trends and making assumptions regarding the future realisability of the value of inventories.
Analyses 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 excess or obsolete stocks. The estimate of the recoverable value of warehouse inventory as at 31 December 2018 represents the directors' best assessment, taking into account information and circumstances that are known or foreseeable as at the balance sheet date in relation to measurements associated both with disposal and realisation policies, as well as the expected trend in market demand, considering future sales forecasts. If effective market conditions turn out to be less favourable than those foreseen by the Group, the value of inventories may have to be written down.

Allowance for doubtful accounts

The provision for bad debts reflects management's estimate of losses relating to the portfolio of receivables from end customers. Accruals to the bad debt provision are determined based on the past due range, monitoring of specific situations if more prudential, and forms of credit protection.

The Group has devalued both credit positions that previously showed obvious default situations (insolvency procedures and bankruptcies), and positions that are not yet at a loss on which it was decided to set aside a fund to cover expected future losses.

These expected losses were assessed on the basis of three parameters:

- Specific risk, assessed on the basis of knowledge of the clients' financial situation;
- Country risk, assessed on the basis of the political and / or financial risks deriving from the country of origin of the specific debtor;
- Protracted Default risk, with accruing provisions based on the days of expiry of the positions in the portfolio.

The provision is made only on the exposure amounts that exceed the insurance coverage recognized by the credit insurance program.

Deferred tax assets

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

Contingent liabilities

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

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

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

Related parties

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

<u>Financial risks and derivatives</u>

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

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

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars. Exchange rate risk mainly arises from the sale of finished products to the US market.
See the “Financial income and expense” section of these notes for the sensitivity analysis required by IFRS 7.

b) Credit risk

The Group deals only with known, reliable customers. The Group has procedures for assigning credit to its customers that limit the maximum exposure to every position. In addition, the Group has extensive insurance coverage against its receivables from foreign customers and receivables from customers of the “third party” market.
The Group does not have any significant concentrations of credit risk.

See the “Receivables from customers” section of these notes for the composition of receivables from customers broken down by due date.

c) Interest rate risk

Risks associated with changes in interest rates refer to loans. Floating-rate loans expose the Group to the risk of fluctuating cash flows associated with interest payments. Fixed-rate loans expose the Group to the risk of change in the fair value of the loans themselves.
In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps.

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

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

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group’s objective is to ensure that it can fulfil all of its financial obligations at any moment in time, optimising its recourse to external financing. The Group maintains a certain number of lines of credit (see section 5.d “Due to banks”) 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.e “Due to banks” for information regarding the maturities of financial liability contracts.
There are no loan contracts subjected to covenants or other similar guarantees.

3) OTHER INFORMATION

Presentation of the consolidated financial statements

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

Disclosure obligations of the new annual law for the market and competition

Pursuant to Law no. 124 of 4 August 2017 concerning transparency in the system for public disbursements, which envisages significant disclosure obligations for volunteer organisations and businesses, beginning in 2018, reporting is provided on information relative to:

(i) subsidies;
(ii) grants;
(iii) paid assignments;
(iv) economic benefits of any type received;

that were disbursed by the following public agencies:

- Public Administrations;
- companies controlled in law or in fact, directly or indirectly, by Public Administrations, including those that issue shares listed on regulated markets and their investees;
- public holding companies, including those that issue shares *listed on regulated markets and their investees*.

Description	Amount	Collection Year	Revenue Entry Year
Benefit concerning R&D project approved by low 109/2013	218,870.09	2018	2017
Grants for rebuilding after earthquake Regione Emilia Romagna	88,511.28	2018	2014
Industria 2015 - Benefit concerning energy efficiency - Program n. EE 01_00091 (SAL 4)	172,491.91	2018	2016
Industria 2015 - Benefit concerning energy efficiency - Program n. EE 01_00091 (SAL 5)	359,045.69	2018	2017
Grants for education Fondirigenti	282,154.52	2018	2016
Grants for education Fondirigenti	8,200.00	2018	2017
Grants for education Fondirigenti	3,500.00	2018	2018
Grants for education Fondimpresa	60,796.00	2018	2017
Grants for education Fondimpresa	53,780.05	2018	2018
White Certificates TEE	53,059.00	2018	2018

It should also be noted that in 2018 they were assigned free of charge to Company no. 82,579 EUA quotas, of which 77,648 "consumed" against CO_2 emissions.
The average value of EUA shares in 2018 was € 15.88

Subsequent events

There are no matters worth mentioning.

4) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. NON-CURRENT ASSETS

1.a. Goodwill

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

In particular, with respect to Gres Panaria Portugal, the value of goodwill as at 31 December 2018 is Euro 7,789 thousand and relates to:

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

The above amounts are stated net of impairment recorded in 2012 of Euro 4,300 thousand based on the results of impairment testing performed at the year-end on the Cash Generating Unit consisting of the Portuguese company that resulted from the merger of Maronagres Comercio e Industria Ceramica S.A. and Novagres Industria de Ceramica S.A. Although in subsequent years the Portuguese investee began to generate profits again, the value was not restored in accordance with "IAS 36 – Impairment of Assets" which states that, "*An impairment loss recognised for goodwill shall not be reversed in a subsequent period*".

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

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

The value of goodwill relating to Montanari Ceramiche S.r.l. as at 31 December 2018 is Euro 350 thousand. This amount was generated as follows:

- Euro 900 thousand relates to the excess price paid for the acquisition of Montanari Ceramiche S.r.l. in 2007 over the Group's portion of its equity, adjusted to take account of the fair value of this company's assets and liabilities on the acquisition date. This acquisition was accounted for in accordance with the provisions of IFRS3.
- The above amount was then reduced for the write-down for impairment totalling Euro 550 thousand, of which Euro 200 thousand was recorded in 2009 and Euro 350 thousand in 2012, as a result of impairment testing.

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

Impairment Testing

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

As part of the 2018 financial statement closure process, impairment tests were performed as required by IAS 36. In particular, the Company identified the Cash Generating Units ("CGUs") that represent the smallest identifiable grouping capable of independently generating cash flows; these CGUs correspond to the business units that make up the Group.

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

The Group tested the recoverability of the value of net capital employed recorded in the Group's consolidated financial statements and attributed to each CGU, to which were added allocations made at consolidation level.
With respect to testing for the Panariagroup S.p.A. CGU, net capital employed was considered net of the carrying value of the equity investments.

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

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

	Net capital employed	***Goodwill - Allocation of consolidated financial statements***	***Equity investments***	**Total**
Panariagroup S.p.A.	209,951	-	(89,862)	120,089
Gres Panaria Portugal	52,133	14,453	-	66,586
Panariagroup USA and subsidiaries	79,824	(263)	-	79,561
Montanari Ceramiche S.r.l.	587	350	-	937

The value in use of the CGUs was determined by applying the UDCF ("Unlevered Discounted Cash Flow") model, which considered the cash flows included in the 2019-2023 Business Plan approved by the Board of Directors of the Parent Company on 15 March 2019. The impairment method was approved by the Board of Directors on 14 November 2018. A terminal value was calculated at the end of the explicit forecast period, represented by a perpetuity. To determine the cash flow in perpetuity, net operating profit less adjusted tax (NOPLAT) of the last year of the business plan was used, as management estimates this to be a long-term "normalised" flow.
The growth rate g used for the determination of the terminal value was prudently taken to be zero, in line

with the assumption made for the tests performed in prior years.
The discount rate, or WACC, used to discount expected cash flows from all the CGUs subjected to testing was 6.66% (7.10% in 2017). The Group determined the discount rate by weighting the risks associated with the principal markets in which the Company operates on the basis of the turnover achieved by each of these.

Moreover, based on the information contained in the joint document of the Bank of Italy, CONSOB and ISVAP no. 2 of 6 February 2009, the Group developed a sensitivity analysis on the test results in relation to a change in the base assumptions, identifying WACC and EBITDA as the relevant parameters for this analysis, as they influence 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.

As part of the Group's impairment test procedure at December 31, 2018, the Group management revised the economic and financial forecasts, included in the 2019-2023 plan, also in light of the 2018 results, noting that the market capitalization at December 31, 2018, which was lower than the consolidated net equity.
Management has considered, in the 2019-2023 plan, the expected effects of the actions started and planned in order to recover the margins and developments of the market in which it operates; in particular, the forecasts have been drawn up also taking into account the calculations resulting from the most recent forecasts of "Confindustria Ceramica" and "Cresme" with reference to revenues, and considering the cost efficiency actions and the optimization of working capital.

No impairment losses arose from the test performed.

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

<u>Panariagroup Industrie Ceramiche S.p.A.</u>

Based on the parameters indicated above, the Recoverable Amount of the Panariagroup CGU amounts to approximately Euro 146.3 million against a net invested capital value of 120.1 million.

<u>Gres Panaria Portugal S.A.</u>

On the basis of the parameters indicated above, the Recoverable Amount of the Gres Panaria Portugal CGU amounts to € 150.6 million against a Net Invested Capital of € 66.6 million.

<u>Panariagroup USA and subsidiaries</u>

On the basis of the above parameters, the recoverable amount of Panariagroup USA is USD 153.0 million, against the company's net capital employed as per the consolidated financial statements of USD 91.1 million.

<u>Montanari Ceramiche S.r.l.</u>

On the basis of the above parameters, the recoverable amount of Montanari Ceramiche S.r.l. was around Euro 1.0 million, compared to the company's net capital employed of Euro 0.9 million.

The Group management considered the Recoverable Amounts of the CGUs indicated above, together with the other components of the net invested capital of the Group, and concluded that there is no need to recognize losses in value on specific assets.

Impairment - Sensitivity Analysis

The results of the Sensitivity Analysis performed on the significant parameters are presented below, in the light of the assumptions underlying the forecasts (i.e.WACC and EBITDA) that would involve the alignment of the Recoverable Amount to the value of the net invested capital.

The results are shown in the following table:

	WACC	*Change in EBITDA compared to the Plan*
Panariagroup S.p.A.	8.0%	-10%
Gres Panaria	14.7%	-41%
Panariagroup USA	11.1%	-29%
Montanari Ceramiche	7.3%	-6%

1.b. Intangible assets

"Intangible assets" as at 31 December 2018 amount to Euro 15.553 thousand, an increase compared to 31 December 2017 of € 1.314 thousand.

Changes during the year can be summarised as follows:

	2018	**2017**
Beginning Balance	**14,239**	**13,967**
Additions	2,203	2,271
Reclassifications from tang. assets	-	244
Retirements	-	-
Depreciation charge	(1,226)	(1,230)
Exchange differences for foreign subsidiaries	337	(1,013)
Ending Balance	**15,553**	**14,239**

The increases of the financial year mostly refer to software acquisitions and development. The most significant concerns the start-up of the IT system integration project at Group level, on a single platform (SAP). The launch of the system for the Portuguese Business Unit is scheduled for the first half of 2019.
Capitalised costs connected with the Portuguese project are therefore recognised under item Construction in progress.
The Group has verified the recoverability of the value of the above-mentioned assets as part of the impairment test conducted on the CGUs to which they flow in the absence of specific indicators on individual assets.

The changes during the period are reported in an attachment.

1.c. Tangible fixed assets

The net book value of tangible fixed assets at the end of the period is as follows:

	2018	2017
Land and buildings	24,932	24,972
Plant and machinery	70,085	72,951
Equipment and other assets	28,136	27,252
Construction in progress	1,687	830
	124,840	**126,005**

Changes during the year can be summarised as follows:

	2018	2017
Beginning Balance	**126,005**	**119,595**
Additions	17,236	32,108
Retirements	(118)	(53)
Depreciation charge	(19,871)	(20,859)
Reclassifications to intang. assets	-	(244)
Exchange differences for foreign subsidiaries	1,587	(4,542)
Ending Balance	**124,840**	**126,005**

The changes during the period are reported in an attachment.

Expenditure on property, plant and equipment during the period came to around Euro 17.2 million and refers, for roughly Euro 9.7 million, to investments in the Italian Business Unit, for Euro 5.2 million to investments in the Portuguese Business Unit, and for roughly Euro 2.3 million to investments in the US Business Unit.

The most significant investments during the year have already been described in the Directors' Report, in the section “Results and significant events in 2018” as well as in “Non-current assets”.

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

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

The US subsidiary Florida Tile Inc. operates at the Lawrenceburg (Kentucky) plant under an operating lease that expires in 2030 (with multiple renewal options until 2050), an annual lease instalment of around USD 2 million and without buy-back option on expiry.
The group verified the recoverability of the value of the above-mentioned assets as part of the impairment test conducted on the CGUs to which they flow in the absence of specific indicators on individual assets.

1.d. Equity investments

This caption comprises:

	2018	2017
Equity investment in AGL Panaria Private Ltd	154	284
Other	7	16
	161	**300**

The change in the book value of the equity investment in AGL Panaria Private Label was caused by a decrease of Euro 130 thousand for the write-down recorded in applying the equity method.

1.e. Deferred tax assets

Deferred tax assets are composed as follows:

	2018	2017
Deferred tax assets:		
- for taxed provisions	4,498	4,448
- tax loss carry-forwards	6,575	4,924
- for Section 263 A Ending	590	444
- for deferred rent payable	158	148
- for AMT Credit carryover	467	446
- for RFAI Portugal tax incentive	842	-
- other	1,296	2,057
Deferred tax assets	**14,426**	**12,467**

Deferred tax assets for “tax loss carry-forwards” refer to tax losses related to the subsidiary Florida Tile Inc. (Euro 2.3 million) and Panariagroup Industrie Ceramiche (Euro 4.3 million).

With respect to these deferred tax assets, the business plans prepared and approved by Group management show future results that will allow their recovery.

The RFAI tax incentive ("Fiscal de Apoio and Investment Scheme") refers to a measure in favor of Portuguese companies that allow a percentage of investments made in the year to be deducted from income taxes.

The Parent Company Panariagroup Industrie Ceramiche S.p.A. has been included in the tax group headed up by its ultimate parent Finpanaria S.p.A., which also includes the related company Immobiliare Gemma S.p.A. and the subsidiaries Montanari Ceramiche S.r.l. and Panariagroup Immobiliare S.r.l. The IRES income tax receivable or payable is thus a receivable from or payable to the parent company which, in its role as consolidating entity, handles all dealings with the tax authorities.

1.f. Other non-current assets

This caption comprises:

	2018	2017
Guarantee deposits for utilities	299	294
Loans due from third parties	143	143
Other receivables	122	100
Other non-current assets	**564**	**537**

The item "Loans due from third parties" refers to residual amounts of loans granted to a partner company belonging to the group of companies headed by Panariagroup Industrie Ceramiche S.p.a. as part of the "Industry 2015" project and nearly fully repaid in the initial months of 2019.

1.g. Non-current financial assets

Non-current financial assets are broken down as follows:

	2018	2017
Industrial Revenue Bond 2007	6,653	7,058
Industrial Revenue Bond 2016	12,401	11,840
	19,054	**18,898**

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

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

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

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

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

The entire transaction has a neutral cash-flow impact on the consolidated financial statements, since the financial asset represented by the Bond exactly matches the financial liability represented by the Finance

Lease; however, the consolidated financial statements do benefit in terms of income since this transaction means that there is no property tax payable on the "Porcelain Project".

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

2. *CURRENT ASSETS*

2.a. Inventories

As at 31 December 2018, this item is composed of the following:

	2018	2017
Raw, ancillary and consumable materials	14,064	12,901
Work in progress	2,218	2,082
Finished products	157,911	148,023
Provision for obsolescence	(15,837)	(13,427)
Total finished products and raw materials	***158,356***	***149,579***
Buildings held for sale	2,240	2,585
Provision for depreciation: buildings held for sale	(648)	(684)
Total buildings held for sale	***1,592***	***1,901***
	159,948	**151,480**

The overall value of inventories rose (+8.5 million, +5.6%) compared to 31 December 2017. The increase is primarily attributable to the Portuguese Business Unit, as a result of the growing trend for sales and the higher production capacity achieved following the installation of a new production line in the Aveiro facility.

Inventories of finished products and raw materials are shown net of a provision for obsolescence of Euro 15,837 thousand as at 31 December 2018, 9.1% of total inventories (Euro 13,427 thousand as at 31 December 2017), 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.
Analyses 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 excess or obsolete stocks. The estimate of the recoverable value of warehouse inventory as at 31 December 2018 represents the directors' best assessment, taking into account information and circumstances that are known or foreseeable as at the balance sheet date in relation to measurements associated both with disposal and realisation policies, as well as the expected trend in market demand, considering future sales forecasts.

Inventories include Euro 2,240 thousand of buildings held for sale (mainly apartments received in exchange), net of an impairment charge of Euro 648 thousand, based on the estimates of the market value of the assets at the end of the year drawn up by an independent professional.

2.b. Receivables from customers

The item “Receivables from customers” is broken down as follows:

	2018	2017
Receivables from customers	70,704	84,676
Provision for bad and doubtful accounts	(5,748)	(5,534)
	64,956	**79,142**

Receivables from third parties posted a substantial decline of 16.5%.

The decrease was mainly caused by higher volumes of receivables assigned without recourse, which passed from Euro 0.4 million as at 31 December 2017 to Euro 12.4 million as at 31 December 2018.

Net of this effect, the figure for “average days of collection” is essentially unchanged, thus confirming the effectiveness of the credit management policy, both in terms of percentage of past due, as well as relative to credit losses.

The item “Receivables from customers” includes around Euro 3.3 million in receivables past due by more than 120 days (equal to roughly 5.1% of total receivables); the provision for bad and doubtful accounts, amounting to Euro 575 million, reflects an economic estimate of the recoverable value of total receivables, based on the information available at the time of preparing the consolidated financial statements.

2.c. Due from tax authorities

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

	2018	2017
VAT receivable	2,719	2,182
Income tax receivable and advance payments	4,391	2,716
Other amounts due from tax authorities	2,050	2,055
	9,160	**6,953**

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

The item “Income tax receivable and advance payments” refers to the balance between the advance payments made and income taxes due for the period.

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

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

2.d. Other current assets

This caption is made up as follows:

	2018	2017
Advances to social security institutions	289	127
Advances to suppliers	168	178
Rebates from suppliers and credit notes to be received	1,319	816
Receivables due from employees and third parties	204	204
Earthquake grants receivable	119	320
Other grants to be received	24	727
Receivables due from energy income	707	991
Other	459	340
Total other current receivables	**3,288**	**3,703**
Total current accrued income and prepaid expenses	**1,371**	**1,388**
	4,659	**5,091**

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

"Other" includes Euro 252 thousand relating to the recoverable VAT part of write-down of receivables.

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.

2.e. Current financial assets

This caption is made up as follows:

	2018	2017
IRB 2007 – Current portion	739	706
IRB 2016 – Current portion	443	423
	1,182	**1,129**

The items "IRB – Current portion" relate to the principal element of the Industrial Revenue Bonds that matures within 12 months, as explained in more detail in the section "Non-current financial assets".

2.f. Cash and cash equivalents

These are made up as follows:

	2018	2017
Bank and post office deposits	16,638	7,103
Cash and equivalents on hand and cheques	272	53
	16,910	**7,156**

There are no restrictions or disposals costs on cash and cash equivalents.
The changes in financial position in 2018 compared with 2017 are analysed in the Consolidated Cash Flow Statement shown previously.

5) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. EQUITY

Equity consists of:

	2018	2017
Share capital	22,678	22,678
Share premium reserve	60,784	60,784
Revaluation reserves	4,493	4,493
Legal reserve	4,366	4,125
Translation reserve	5,095	2,535
Exchange adjustment reserve	505	(202)
Other reserves and retained earnings	73,239	65,540
Profit (Loss) for the year	(4,098)	11,356
	167,062	**171,309**

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

To date, no stock option plans have been granted.

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

Share capital

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

Share premium reserve

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

- Euro 5,069 thousand in relation to the share capital increase carried out in 2000 by Panaria Industrie Ceramiche S.p.A.;
- Euro 53,114 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 as 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 increased thanks to the allocation of 5% from the 2017 net profit.

Translation reserve

In accordance with IAS 21, conversion differences arising from translation into the reporting currency of financial statements drafted in foreign currencies by companies included in the scope of consolidation are classified as a separate component of equity.
In particular, it contains the exchange differences that arose on translation into euro of the financial statements of Florida Tile Inc., Panariagroup USA Inc. and Lea North America LLC, originally expressed in US dollars.

Exchange adjustment reserve

In application of IAS 21.40, this reserve contains the gains/losses generated by monetary elements that are an integral part of the net investment in foreign operations. In particular, it reflects the effect of the valuation at year-end exchange rates of receivables for loans disbursed in USD by the Parent Company to the US subsidiaries, for which settlement and/or a defined repayment plan is not envisaged, nor is it deemed probable that they will be reimbursed in the foreseeable future.

Other reserves and retained earnings

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

	2018	**2017**
Extraordinary reserve	51,902	50,462
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings/losses and other reserves	21,874	15,615
	73,239	**65,540**

The balance of the “Extraordinary reserve” increased by the net amount related to the allocation of the result of the previous year, after the allocation of 5% to the Legal reserve and the distribution of dividends amounting to Euro 3,145 thousand.

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

Treasury shares

As at 31 December 2018, the treasury shares held in portfolio were 432,234, at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

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

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

“Retained earnings (accumulated losses) and other reserves” of Euro 21,874 thousand refer principally to profits made by subsidiaries after preparation of the first consolidated financial statements and not distributed, and to the allocation of the result of the previous year.
No deferred taxes have been provided on these reserves, as no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

4. NON-CURRENT LIABILITIES

4.a. Post-employment benefits

This item includes the actuarial value of post-employment benefits, as shown hereunder:

	2018	2017
Post-employment benefits	5,066	5,531

Liabilities related to post-employment benefits are related to the employee severance indemnities, as envisaged by the Italian regulations and were determined pursuant to provisions set forth by IAS 19. The main technical bases used for calculations are shown hereunder:

Demographic assumptions

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

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

Disability: 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-18: IBoxx Eurozone Corporate AA discount rate = 1.13%
31-Dec-17: IBoxx Eurozone Corporate AA discount rate = 0.88%

The inflation rates taken into consideration are as follows:

31-Dec-18: annual inflation rate = 1.50%
31-Dec-17: annual inflation rate = 1.50%

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

2017 Balance	**5,531**
Charge to the income statement	55
Charge to “Other Comprehensive Income”	(113)
Portion paid out during the year	(407)
2018 Balance	**5,066**

4.b. Deferred tax liabilities

Details of deferred tax liabilities are provided below:

	2018	**2017**
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	1,713	1,785
- valuation of severance indemnities according to IFRS		-
- valuation of agents' termination indemnities according to IFRS	261	213
- valuation of inventories	0	351
- lease-back	131	152
- exchange differences on valuation	76	-
- accelerated amortisation/depreciation	5,361	5,286
- other	70	47
Deferred tax liabilities	**7,612**	**7,834**

Deferred tax liabilities provided against the "revaluation of acquired company buildings at fair value" (Euro 1,713 thousand) refer to the recognition of the current value of acquired company assets at fair value in the consolidated financial statements, net of accumulated depreciation on the acquisition date.

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

4.c. Provision for risks and charges

Provisions for risks and charges are made up of:

	2018	**2017**
Provision for agents' termination indemnities	3,151	3,276
Provision for tax risks	588	485
Provision for returns	172	245
Other provisions	595	563
	4,506	**4,569**

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 2.09%.
The rate has been applied to a projection of expected future cash flows for agents' termination indemnities based on past payments of this kind over the last five years. For prudence sake, a maximum limit of 20 years was chosen for the period during which payments from this provision will be made, even though most of the agency network is made up of legal entities.

"Provisions for tax risks" include allocations on contingent tax liabilities; the balance as at 31 December 2018 refers primarily to the risk connected with a dispute with the Portuguese tax office and reflects the best estimate of expenses to be incurred on the basis of the analysis of irregularities received and the likelihood of the defensive arguments made by the Directors, with the help of the Group's tax consultants, being upheld.

The main item that makes up "Other provisions" is the "Provision for the risks of ongoing disputes".

The Parent Company's tax years from 2014 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements as at 31 December 2018.

With regard to tax risks, note that an agreement was reached with the Tax Authorities in February 2019 for the dispute regarding the use of the "Tax receivable not due", ascertained with the issue of a tax recovery demand by the Tax Authorities in December 2015.
Against the disputed value of Euro 250,000, Euro 207,000 of presented costs were accepted, with a tax cost of Euro 43,000, to which sanctions of an equivalent amount were added; these costs were fully expensed in 2018.

4.d. Other non-current liabilities

As at 31 December 2018, this caption comprises:

	2018	2017
Due to suppliers beyond 12 months	2,053	2,097
Accrued rent - Lawrenceburg	629	595
Deferred income on grants for earthquake	412	782
Other	45	57
	3,139	**3,531**

The amounts due to suppliers beyond 12 months refer to the discounted value of medium/long-term payables and mainly relate to the supply of plants and machinery on extended payment terms agreed for beyond 12 months.

"Accrued rent – Lawrenceburg" is the difference between the rent payments effectively made and the higher rent instalments due as calculated according to IAS. In fact, the contract provides for rent payments that increase every five years, whereas IAS 17 assumes that they are booked on a straight-line basis.

"Deferred income on grants for earthquake" includes the amount already collected in previous years from the Regional Government and from insurance companies for damages suffered as a result of the 2012 earthquake. These grants mostly refer to works included under fixed assets, recognised in the income statement according to the useful life of the investments to which they refer.

4.e. Due to banks

The item "Due to banks" is broken down as follows:

	2018	2017
Medium/Long-term loans	76,578	78,988
	76,578	**78,988**

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

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

- Mortgage Security for Euro 37,500 thousand issued by the affiliated company Immobiliare Gemma S.p.A.;

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

4.f. Other non-current financial payables

The item “Other non-current financial payables” is broken down as follows:

	2018	2017
IRB finance lease - 2007	6,653	7,058
IRB finance lease - 2016	12,401	11,840
Loans from public entities	4,524	2,772
Other leases	-	135
	23,578	**21,805**

The "IRB finance lease" relates to transactions detailed in note “1.g. Non-current financial assets” of the Industrial Revenue Bond and associated with the package of tax incentives obtained for the major investment in the Lawrenceburg factory of Florida Tile Inc.

The item “Loans from public entities” refers to loans granted by the Portuguese Government with special conditions against investment plans.

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

	Medium/Long-term Loans	Leases	IRB	Total
12 months	26,786	(1,323)	1,182	26,645
2020	31,973	(1,182)	1,182	31,973
2021	20,082	(1,182)	1,182	20,082
2022	10,774	(1,182)	1,182	10,774
2023	10,147	(1,182)	1,182	10,147
2024	3,417	(1,182)	1,182	3,417
2025	3,188	(1,182)	1,182	3,188
2026	1,521	(1,081)	1,081	1,521
2027		(443)	443	-
2028	-	(443)	443	-
Beyond 10 years	-	(6,403)	6,403	-
Medium/Long-term	**81,102**	**(15,459)**	**15,459**	**0**
Financial payables	**107,888**	**(16,782)**	**16,641**	**26,645**

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

The reconciliation of changes in financial debt deriving from financial assets are presented below, with greater detail presented in the relevant section of the cash flow statement:

	01/01/2018	Cash Flow	Reclassification current/ non current	New Contracts	Delta	31/12/2018
Current financial payables due to banks	3,979	3,373				7,352
Current portion of non-current financial payables	19,672	(19,672)	26,327			26,327
Other current financial payables	1,011	(1,011)	600			600
Current Net financial position	**24,662**	**(17,310)**	**26,927**	**-**		**34,279**
Non current financial payables due to banks	78,988	(1,250)	(26,327)	25,000	167	76,578
Other non current financial payables	2,907	(541)	(600)	2,758		4,524
Non current Net financial position	**81,895**	**(1,791)**	**(26,927)**	**27,758**	**167**	**81,102**
Total Net financial position	**106,557**	**(19,101)**	**-**	**27,758**	**167**	**115,381**

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

5. CURRENT LIABILITIES

5.a. Payables due to suppliers

The trend in payables due to suppliers is as follows:

	2018	2017
Payables due to suppliers	88,342	83,198

Payables due to suppliers refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. The balance is in line with the previous year.

5.b. Due to tax authorities

This caption comprises:

	2018	2017
Withholding tax	3,460	3,017
Income taxes	-	297
Other	373	295
	3,833	**3,609**

5.c. Other current liabilities

As at 31 December 2018, this caption comprises:

	2018	2017
Due to social security institutions	4,361	4,165
Due to employees	7,248	7,600
Due to customers	4,719	4,440
Due to agents	6,768	7,114
Financial derivatives – negative fair value	201	189
Other	455	1,342
Total current payables	**23,752**	**24,850**
Deferred income from capital grants	95	94
Accrued interest expense	6	3
Deferred income from earthquake insurance payouts	371	371
Other	149	53
Total current accrued expenses and deferred income	**621**	**521**
	24,373	**25,371**

"Deferred income from earthquake insurance payouts" consists of a portion of insurance payouts and of the government grant relating to extraordinary maintenance as a consequence of the earthquake and which have been capitalised. This portion of the payout is thus being taken to income over the useful lives of the assets to which they relate.

5.d. Due to banks

Short-term payables due to banks are made up as follows:

	2018	2017
Current account overdrafts	797	1,330
Export advances	4,721	1,649
Short-term loans	1,834	1,000
Current portion of medium/long-term loans	26,327	19,672
	33,679	**23,651**

The changes in financial position during 2018, compared with 2017, are shown in the consolidated cash flow statement contained in the section relating to the consolidated financial statements.

The Group's total borrowing facilities granted by banks at 31 December 2018 amounted to Euro 104,0 million, of which Euro 7.4 million had been drawn down at that date.

"Medium/Long-term loans" include the current portion of unsecured loans obtained primarily by the Parent Company

Like in previous years, the Group has not carried out any factoring or securitisation transactions in 2018.

5.e. Other current financial payables

Short-term financial payables are made up as follows:

	2018	2017
IRB finance lease - 2007	739	706
IRB finance lease - 2016	443	423
Loans from public entities	459	778
Other leases	141	233
	1,782	**2,140**

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as at 31 December 2018:

- "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 201 thousand, relating to the mark to market as at year end.

Adjusting these instruments to fair value as at 31 December 2018 involved booking a profit of Euro 8 thousand to the income statement for the period.

Efficacy tests were carried out at December 31, 2018, which confirmed the hedging requirements of IFRS 9 at the balance sheet date; the negative changes deriving from the hedging instruments were therefore accounted for according to the cash flow hedge method in the net equity for an amount equal to Euro 15.

The impact of IFRS 13 relating to the fair value adjustment to consider the counterparty risk is not significant for the Company'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 5.8 million on bank guarantees and loans granted by a bank to the US company, and Euro 0.4 million to suppliers of plants;
- in favour of Gres Panaria Portugal for a total of Euro 9 million of bank guarantees granted by an Italian bank to the Portuguese company;

The loan contracts do not contain any covenants.

6) COMMENTS ON THE MAIN INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales

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

	2018	2017
Italy	76,423	75,613
Abroad	299,852	312,923
(Customer rebates)	(5,280)	(4,854)
	370,995	**383,682**

As previously reported, starting from 1 January 2018 the accounting standard IFRS 15 (Revenues) entered into force. The application of this principle has led to the reclassification of certain items for the Group which, previously recorded under "Financial Income and Expenses", are now recognized as a deduction from Revenues, as they are considered to be of variable remuneration within the standard.
With regard to this aspect, therefore, the figures shown at December 31, 2018 are not consistent with the classification adopted at December 31, 2017.

The decrease in "Revenues from sales, amounting to 13.6 million euros, is attributable for 0.9 million euros to the adoption of the new accounting standard and for 12.7 million euros to an effective contraction in business volume.

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	2018	2017	Change
Expense recoveries (displays, transport)	6,035	6,386	(351)
Gains on the sale of property	101	185	(84)
Out-of-period income	916	397	519
Indemnities for damages suffered	303	505	(202)
Grants	800	1,325	(525)
Energy income	1,829	2,609	(780)
Capitalisation of own work	840	576	264
Other	321	92	229
	11,145	**12,075**	**(930)**
% of Value of production	***2.85%***	***3.15%***	**-0.30%**

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

The item "Capitalisation of own work", recorded at Euro 840 thousand in 2018, refers primarily to the in-house personnel employed for the implementation of the new SAP management platform.

"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:

	2018	% of V.o.P.	2017	% of V.o.P.
Raw materials	57,962	14.80%	56,444	13.64%
Finished products	43,063	11.00%	43,106	10.41%
Packaging	15,324	3.91%	14,994	3.62%
Price lists/Catalogues	1,035	0.26%	1,021	0.25%
Change in inventories	-192	-0.05%	(728)	-0.18%
Other	11	0.00%	24	0.01%
	117,203	**29.93%**	**114,861**	**27.75%**

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

7.b. Services, leases and rentals

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

	2018	% of V.o.P.	2017	% of V.o.P.
Property rental	10,130	2.59%	10,295	2.49%
Rent of other fixed assets	4,446	1.14%	5,355	1.29%
Commissions	15,494	3.96%	15,620	3.77%
Utilities	36,483	9.32%	33,062	7.99%
Commercial expenses and advertising	10,435	2.66%	9,471	2.29%
Sub-contract work	17,636	4.50%	16,183	3.91%
Maintenance	10,417	2.66%	10,227	2.47%
Transportation	27,269	6.96%	27,548	6.65%
Industrial services	8,193	2.09%	8,617	2.08%
Directors' and statutory auditors' fees	806	0.21%	784	0.19%
Consulting fees	4,204	1.07%	6,198	1.50%
Insurance	1,475	0.38%	1,550	0.37%
Travel expenses	4,266	1.09%	4,454	1.08%
Temporary employment	5,793	1.48%	7,044	1.70%
Other	1,268	0.32%	780	0.19%
	158,315	**40.43%**	**158,973**	**38.40%**

"Property rental" mainly includes:

- Following the extraordinary property spin-off in 2004, the buildings leased by the Parent Company, as they are owned by Immobiliare Gemma S.r.l. (a related party).
  In this regard, note that an addendum to the governing contracts was signed during the year, which established, as the main new element, a new duration of 9+9 years effective from 1 January 2018.
  Recall that, prior the extension of the duration, the lease contracts were to expire between June and July 2020, leading to a significant amortisation on the "Leasehold improvements" in recent years which, while correctly reflecting the formal agreements, referred to a decidedly shorter time horizon compared to the actual expectations for use that led Panariagroup to carry out these interventions.
  The execution of the transaction, with the simultaneous extension of the maturity, which is more in line with management's long-term prospects, involved the re-calculation of the amortisation plan for "Leasehold improvements" (which is now much more aligned with the managerial expectations) in place at 31 December 2018, with a positive impact on the income statement for the year of Euro 1,8 millions, inclusive of the tax effect.

- rents that Florida Tile Inc. pays for the land and building of its plant in Lawrenceburg, its head office and the premises used as branches for the retail sale of finished products amount in total to Euro 4,349 thousand.

7.c. Personnel costs

Personnel costs passed from Euro 94,501 thousand in the year ended 31 December 2017 (22.8% of value of production) to Euro 93,705 thousand in the year ended 31 December 2018 (23.9% of value of production).

Personnel costs can be broken down as follows:

	2018	**2017**
Wages and salaries	71,180	71,932
Social security contributions	19,689	19,384
Employee severance indemnities and other funds	2,468	2,510
Other personnel costs	368	675
	93,705	**94,501**

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

	2018	**2017**
Managers	45	41
Supervisors and white-collar workers	619	673
Foremen and blue-collar workers	1,076	991
	1,740	**1,705**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	2018	% of V.o.P.	2017	% of V.o.P.
Out-of-period expenses	241	0.1%	473	0.0%
Gifts	111	0.0%	109	0.0%
Trade association fees	130	0.0%	112	0.0%
Losses on disposals	3	0.0%	16	0.1%
Indirect taxes	1,466	0.3%	1,412	0.3%
Office equipment	431	0.1%	494	0.1%
Other	645	0.3%	1,167	0.3%
	3,026	**0.9%**	**3,783**	**0.8%**

8. AMORTISATION AND PROVISIONS

8.a. Amortisation

The charge for depreciation and amortisation for the year ended 31 December 20118 has decreased compared to the prior year, from Euro 22,089 thousand to Euro 21,099 thousand, due in part to the extension of the property lease contract with Immobiliare Gemma S.p.A., discussed above.

8.b. Provisions and impairments

The caption "Provisions and impairments", amounting to Euro 3,475 thousand, includes allocations to the provision for slow-moving and obsolete goods for Euro 2,891 thousand, allocations for agents' termination indemnities of Euro 375 thousand, and other allocations for Euro 209 thousand.

PANARIAgroup

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	2018	2017
Interest expense on short-term loans	(233)	(118)
Interest expense on medium/long-term loans	(584)	(735)
Financial expense on severance indemnity liability	(46)	(48)
Bank charges and credit card fees	(908)	(896)
Other financial expense	-	(828)
Total financial expense	**(1,771)**	**(2,625)**
Bank interest income	25	9
Interest on receivables	3	14
Fair value gains on derivatives	8	47
Total financial income	**36**	**70**
TOTAL FINANCIAL INCOME AND EXPENSE	**(1,735)**	**(1,816)**
% of Value of production	*-0.4%*	*0.4%*
Exchange losses	-1,447	(1,905)
Exchange gains	2,121	819
TOTAL EXCHANGE GAINS AND LOSSES	**674**	**(1,086)**
% of Value of production	*0.2%*	*-0.3%*
Financial losses on discounting	-	-
Financial gains on discounting	155	114
DISCOUNTING GAINS (LOSSES)	**155**	**114**
% of Value of production	*0.0%*	*-0.0%*
Impairment losses on equity investments in subsidiaries	-	-
Impairment losses on equity investments in Joint Ventures	(119)	(172)
TOTAL GAINS AND LOSSES ON EQUITY INVESTMENTS	**(119)**	**(172)**
% of Value of production	*-0.0%*	*-0.0%*
Total financial income (expense)	**(1,026)**	**(3,699)**
% of Value of production	**-0.3%**	**-0.9%**

With reference to the item "Financial Income and (Expense)", it should be noted that the figures shown at 31 December 2018 are not consistent with the classification adopted at 31 December 2017, as an effect of the adoption of the accounting standard IFRS 15, in force since 1 January 2018.
The effect is particularly visible in the above table in the item "other financial charges", which in 2017 include Euro 0.7 million of "ready cash discounts" which, pursuant to IFRS 15, were classified as a reduction in revenues in 2018.

The result of financial management improved, principally due to the trend in exchange rates, which generated a positive differential of Euro 1.8 million compared to the previous year.

Financial income and expense - Sensitivity analysis

As previously stated in the section on "Financial risks", the Group is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.
The following is a sensitivity analysis to show the impact on the 2017 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%	(0.6)
+ 1.00%	(1.1)
+ 1.50%	(1.7)
+ 2.00%	(2.3)

Exchange rates (EUR/USD)

Rate	Higher (Lower) Pre-tax profit € mln
1.00	+2.1
1.10	+0.1
1.20	-
1.30	-0.8
1.40	-1.5

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a. Income taxes

Income taxes for the financial year were Euro 3,863 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
(THOUSANDS OF EURO)

Theoretical tax rate - Italian taxation

A	Pre- Tax profit	(653)
B	Personnel costs	52,498
C	Net finance costs (net of write-downs and revaluations of investments)	(1,180)
D	IRAP deduction from tax wedge	50,831

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRES purpose	(653)	(157)	24.00%
A+B+C+D	Theoretical taxable income for IRAP purpose	(166)	(6)	3.90%
CF1	Theoretical Tax Charge -Italian Taxation		**(163)**	**24.99%**

Theoretical tax rate - Portuguese taxation

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRES purpose	2,474	520	21.00%
CF2	Theoretical Tax Charge -Portuguese Taxation		**520**	**21.00%**

Theoretical tax rate - USA taxation

			Theoretical tax	Theoretical "Tax Rate"
A	Theoretical taxable income for IRES purpose	(4,758)	(1,285)	27.00%
CF3	Theoretical Tax Charge -USA Taxation		**(1,285)**	**27.00%**

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	Theoretical Tax Charge -Total	**(928)**	**14.78%**
	No taxation of earthquake grants	**(90)**	**1.43%**
	Taxation effect on consolidation entries	**78**	**-1.24%**
	IRES Non-deductible costs	**404**	**-6.43%**
	IRAP Non-deductible costs	**176**	**-2.80%**
	Benefit from fiscal consolidation	**(90)**	**1.43%**
	R&S	**90**	**-1.43%**
	Dividends - 5% taxation	**(677)**	**10.78%**
	Benefit Super- Amortization	**(318)**	**5.06%**
	Benefit RFAI Gres Panaria Portugal	**(842)**	**13.40%**
	Variation	**13**	**-0.20%**
	ACTUAL tax charge	**(2,185)**	**34.78%**

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, the basic earnings per share, negative for Euro 0.09 (positive for Euro 0.25 per share as at 31 December 2017), is disclosed at the foot of the income statement.

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

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

POSITIONS OR TRANSITIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

RELATED PARTY TRANSACTIONS

The "Regulation containing instructions on related-party transaction", adopted by CONSOB Resolution 17221 of 12 March 2010 and subsequently amended by CONSOB Resolution 17389 of 23 June 2010 implemented art. 2391-*bis* of the Italian Civil Code.
By resolution on 23 April 2014, the Board implemented the procedure on related parties, which takes account of the additional instructions on how to apply the new rules provided in CONSOB Communication DEM/10078683 of 24 September 2010.
The purpose of this procedure is to lay down the approach to be taken in identifying, reviewing and approving transaction to be carried out by Panariagroup, or by its subsidiaries, with related parties to ensure that they are transparent and fair from both a substantial and procedural point of view.
The identification of transactions with related parties is based on CONSOB Regulation.
The Group have transactions with related parties, mainly the parent company **Finpanaria S.p.A.** (Parent Company that does not exercise management and coordination) and to **Immobiliare Gemma S.p.A.** (affiliated company, controlled by Finpanaria), as well as persons responsible for administration and management, their family members and any companies controlled by them. The transactions include commercial and real property referred to the rental of real estate where parent company operates and guarantees.
In 2017 there were no transactions with related parties other than Finpanaria S.p.A. and Immobiliare Gemma S.p.A.

Operation with related parties are described below:

INCOME STATEMENT
(in thousands of euro)

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

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	-	5,544	**5,478**
Commission for guarantees received	-	94	**100**
Total costs	**-**	**5,572**	**5,578**

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 operating cash flow*
Revenues	0.03%	0.75%
Costs	2.66%	71.77%

* before changes in working capital

BALANCE SHEET

(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	-	-	-
Payables	-	-	-
Due from (to) tax authorities	1,729	-	1,729
Net receivable (payable)	**1,729**	**-**	**1,729**

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 changes in intangible assets and goodwill from 1 January 2017 to 31 December 2018
- Statement of changes in property, plant and equipment from 1 January 2016 to 31 December 2017
- Statement of changes in net financial position
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuers’ Regulation
- Certification of the consolidated financial statements in accordance with art. 81-*ter* of CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments and additions

Sassuolo, 15 March 2019

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2017 to 31 December 2018

Panariagroup - Consolodated financial statements

Statement of changes in intangible assets and goodwill
from 1 January 2017 to 31 December 2018
(in thousands of Euro)

	Concessions, licenses, trademarks	Intangible assets in progress	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2017	**2,150**	**11,817**	**-**	**13,967**	**8,139**
Net increases	395	1,876		2,271	-
Net drecreases and impairment				0	-
Amortisation	(1,230)	0		(1,230)	-
Reclassifications	6,341	(6,097)		244	-
Exchange differences on foreign subsic	(173)	(840)		(1,013)	-
Balance at 31/12/2017	**7,483**	**6,756**	**-**	**14,239**	**8,139**
Balance at 1/1/2018	**7,483**	**6,756**	**-**	**14,239**	**8,139**
Net increases	836	1,369		2,205	-
Net drecreases and impairment				0	-
Amortisation	(1,226)			(1,226)	-
Reclassifications	461	(461)		0	-
Exchange differences on foreign subsic	319	20		339	-
Balance at 31/12/2018	**7,873**	**7,684**	**-**	**15,557**	**8,139**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2017 to 31 December 2018

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1 January 2017 to 31 December 2018
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2017	**23,688**	**67,882**	**17,435**	**10,590**	**119,595**
Net increases	2,404	14,244	8,240	7,220	32,108
Net decreases and impairment	(32)	(21)	-	-	(53)
Amortisation	(1,088)	(14,776)	(4,995)	-	(20,859)
Reclassifications	-	8,042	7,482	(15,768)	(244)
Exchange differences on foreign subsic	-	(2,420)	(910)	(1,212)	(4,542)
Balance at 31/12/2017	**24,972**	**72,951**	**27,252**	**830**	**126,005**
Balance at 1/1/2018	**24,972**	**72,951**	**27,252**	**830**	**126,005**
Net increases	905	11,109	3,667	1,555	17,236
Net decreases and impairment	-	(86)	(32)	-	(118)
Amortisation	(945)	(15,302)	(3,623)	-	(19,870)
Reclassifications		609	109	(718)	-
Exchange differences on foreign subsidiaries		804	763	20	1,587
Balance at 31/12/2018	**24,932**	**70,085**	**28,136**	**1,687**	**124,840**

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in net financial position

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

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

NET FINANCIAL POSITION
(THOUSANDS OF EURO)

		31-Dec-2018	31-Dec-2017
A	Cash	(272)	(53)
B	Other Cash and cash equivalents	(16,638)	(7,103)
C	Securities held for sale	0	0
D	**Liquidity (A+B+C)**	**(16,910)**	**(7,156)**
E	**Short-term financial assets**	**(1,182)**	**(1,129)**
F	Due to banks	7,352	3,979
G	Current portion of long-term loans	26,327	19,672
H	Other short-term financial debt	1,782	2,140
I	**Short-term financial indebtedness (F+G+H)**	**35,461**	**25,791**
J	**Net short-term financial indebtness**	**17,369**	**17,506**
K	Non-current portion of long-term loans	76,578	78,988
L	Due to bondholders	0	0
M	Other long-term financial debt	23,578	21,805
N	Long-term financial indebtedness (K+L+M)	**100,156**	**100,793**
Z	**Long-term financial assets**	**(19,054)**	**(18,898)**
O	**Net financial indebtness (J+N+Z)**	**98,471**	**99,401**

Current and non-current financial receivables refer to IRB transactions that were previously described.

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

EXPLANATORY NOTES - ATTACHMENT 4

- <u>Directors and Officers</u>

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board and Managing Director	Ordinary administration of Panariagroup Industrie Ceramiche S.p.A.
Paolo Mussini	Deputy Chairman of the Board and Managing Director	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman and Ordinary administration of the Cotto d'Este Division.
Andrea Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup Industrie Ceramiche S.p.A.
Giuliano Mussini	Director	Non-executive
Silvia Mussini	Director	Non-executive
Daniele Prodi	Director	Non-executive
Sonia Bonfiglioli	Director	Independent non-executive
Tiziana Ferrari	Director	Independent non-executive
Francesca Bazoli	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 2019 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
Piergiovanni Ascari	Standing Auditor
Vittorio Pincelli	Alternate Auditor
Fabrio Andreoli	Alternate Auditor

Compensation Commitee

Name
Sonia Bonfiglioli
Tiziana Ferrari
Daniele Prodi

Internal Control Commitee

Name
Tiziana Ferrari
Sonia Bonfiglioli
Daniele Prodi

Supervisory board

Name
Francesco Tabone
Paolo Onofri
Bartolomeo Vultaggio

Independent Auditors

EY S.p.A.

EXPLANATORY NOTES - ATTACHMENT 5

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

Services	Provider	Subject	Fee concerning 2018
Audit	EY S.p.A.	Panariagroup S.p.A.	139
	EY S.p.A.	Panariagroup USA and subsidiarie	79
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	30
Audit services Expenses	EY S.p.A.	Group	33
Other services	EY S.p.A.	Panariagroup S.p.A.	-
Total			**281**

(*) Company 100% controlled by Panariagroup S.p.A.

EXPLANATORY NOTES - ATTACHMENT 6

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

ATTACHMENT 3C-*ter*

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

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

- the adequacy in relation to the characteristics of the firm and
- the actual application of the administrative and accounting procedures for the formation of the financial statements during the period ended 31 December 2018.

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

3. We also certify that:

3.1 the Consolidated Financial Statements:

a) have been prepared under the applicable international accounting standards endorsed by the European Union, pursuant to EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) agree with the balances shown in the books and accounting entries;

c) give a true and fair view of the equity, economic and financial position of the Issuer and all companies included in the consolidation.

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

Sassuolo, 15 March 2019

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