

2017 marks the creation of our first Report on Sustainability. It is the result of a long reflection, of an awareness of our accountability as a company in a sustainable society.

This is a commitment that has been a feature of our Group since the beginning, brought forward by the founders and by their employees: conducting our business in a way that is ethical and respectful of resources and people. Always focusing on creating long-term value, never forgetting our stakeholders and the material resources used during production.

This Report on Sustainability is the image of such commitment, with an aim to represent consistently and effectively, and in a way that can be clear to any of our stakeholders, all of Panariagroup's activities and their impact on the surrounding society. We strongly believe that such an approach to being a business company is a key factor that makes us different from anybody else, vital to make Panariagroup stand out from the competition not only thanks to the strength of its products, but also to its general approach.

We understand that consumers' choices will soon be – already are – more and more in favour of products and businesses operating in a sustainable way. This is fair and coherent with a wise and mature approach to today's society, and finds us ready and willing to follow such trends.

During this research, that involved our people (the cornerstone of our business) while collecting the information you'll find in this document, we saw evidence that sustainability is one of our core values, inherent to our business model.

This in-depth process of research and analysis was for us a chance to further increase our knowledge of every detail of the business we shaped through the years - from the way energy is managed to how our products are sold, from our employees' welfare to the impact we have on local communities.

It is not our aim to gloat about this: we are taking this as a stimulus to work even harder, to take important decisions with the awareness that we will have to follow the values of respect and reliability that have always been our feature. This can be clearly confirmed by some strategies and choices made much earlier than anyone else in our sector. Consider, for instance, the decision, taken at the beginning of the past decade, to invest - the first ones in our sector to do so - on laminated stoneware technology, a product that not only created a new way of conceiving tiles, allowing their use in ways that until only a few years ago were considered unthinkable, but that also is a clear display of how to innovate a product with a strong focus on sustainability, thanks to a lower use of raw material and resources. Panariagroup is proud to be nowadays the group with the highest volume of sales of ultra-thin slabs in the world.

It's with pride that we present now the very first Panariagroup Sustainability Report, a document that we intend to be the start of a path towards new beginnings, which will be thoroughly documented with a specific report on their social and environmental impact. It will be a yearly chance to showcase the growth of our business and a commitment to strongly support, in a way that is both measurable and concrete, the social and economic development of the community we operate in.

> Emilio Mussini President of Panariagroup muni Smll



ACTING WITH DETERMINATION TOWARDS SUSTAINABILITY. THIS IS OUR FUTURE.



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1.1THE SUSTAINABILITY REPORT

This document is **the first Report on Sustainability by Panariagroup** (henceforth also mentioned as "the Group"). Its aim is to display the initiatives enacted and the results achieved in 2016 (period going from January 1st to December 31st) by the Group in the field of sustainability.

This Report on Sustainability has been prepared according to the GRI Standard guidelines published by the Global Reporting Initiative in 2016, following the option "in accordance Core". Its contents and the indicators in this report have been identified starting from a materiality analysis that highlighted the topics we consider crucial for the Group and for its stakeholders. Specifically, the process of defining this document's contents was based on the principles of relevance, stakeholders' inclusion, completeness and on the context in which the Group operates. The principles of balance, accuracy, verifiability and comparativeness have been adhered to in reference to the quality of the information here included.

The data and the information included in this Report refer to 2016 and, in order to allow comparison when available, to the previous tax **year.** For a correct representation, we also included information referring to actions performed in previous years as long as they are still of consequence in the Group's activity. Please be aware that, for ease of reading, the detailed data are attached at the end of this document.

The present report refers to Panariagroup Industrie Ceramiche S.p.A. and to all the companies under its control as detailed in the Bilancio Consolidato di Gruppo (Group's Consolidated Balance Statement) dated 31st December 2016. Possible exceptions to this will be indicated within the present document. In order to guarantee the reliability of the data, the use of estimates has been limited as much as possible; whenever one has been employed, this fact will be clearly stated. Such estimates have been made following the best procedures available. A Report on Sustainability will be released on a yearly basis.

For further information about our Sustainability Report, please contact: sustainability@panariagroup.it



1.2 **OUR APPROACH** TO SUSTAINABILITY

Panariagroup's mission statement is about growing and creating well-being in harmony with the people and the environment, with openness, passion and love for our work. In order to achieve such targets,

the Group aims to generate sustainable value for its shareholders, employees and business partners respecting society and the environment. The Group has a strong focus on research and innovation, and is resolute to satisfy the highest expectations in the fields of general well-being and of aesthetics, both for professional and private customers, in architecture or in the construction industry.

ACTING RESPONSABLY MEANS INCLUDING SUSTAINABILITY IN THE LIST OF ASPECTS TO BE CONSIDERED IN EVERY DAY CHOICES, PAYING ATTENTION TO THE WHOLE PRODUCTION PROCESS AND TO ANY **ENTITY WHOSE INTERESTS** MAY INTERSECT THE **COMPANY'S**

Always at the vanguard when it comes to joining beauty, quality and sustainability, Panariagroup has a thorough commitment towards reducing the environmental impact of its plants, thus displaying its focus on safeguarding the ecosystem and at the same time on offering the highest comfort. This is a vital, essential commitment for those who, like Panariagroup, create products that millions of people all around the world encounter in their daily life, at home or in public places.

Acting responsibly means integrating sustainability amongst the aspects to be taken into

consideration in the company's day-to-day choices,

from the purchase of raw materials to the sale of the final product, focusing therefore on the whole production and those influenced by it, such as the company's employees, the local communities and associations, the local government and any entity whose interests may intersect the company's.

In this context, the Group has been and is constantly committed to the development of new management systems, new procedures and new policies keeping in mind the respect of the environment and of the society it belongs to or that surrounds it.

For the Group, the concept of acting within the principles of sustainability also embraces further aspects, not directly linked to environmental policies. The Group's management strategies now include policies and practices aimed to analyse and regulate the company's impact both on the economy and on the society.

On the social side, the Group has contributed constantly and with commitment to make the areas in which it operates and the people it interacts with more prosperous; through its plants and its commercial offices, the Group has promoted occupation.

Even during the economic crisis that involved most of the countries the Group operates in,

Panariagroup has always been committed to uphold occupational levels, to offer a safe working environment and to focus on its employees' welfare.

This first Panariagroup Report on Sustainability, therefore, not only answers the need to display to the stakeholders the activities of the company and its social and environmental impact, but also the necessity to integrate with growing awareness the aspects of sustainability in the company's strategic decisions, in order to increase its value for the people and the areas in which it operates. In order to come to responsible decisions, it is therefore necessary to know in depth the impact - positive or negative - the company has, and this report is the first, vital step taken by Panariagroup towards this target.

1.3

THE GROUP'S STAKEHOLDERS AND THE RELATIONSHIP CHANNELS

Throughout Panariagroup's sustainable growth, our stakeholders have a pivotal role. Through their involvement and our awareness of their needs, the Group is able to pursue its economic, social and environmental targets in a shared way that, because of this, becomes even more effective.

In its first Sustainability Report, Panariagroup identified the individuals or groups who entertain a relationship with the company and with its activities, taking into consideration several elements such as tension, influence, responsibility and dependency.

Such research has been performed in accordance to the international guidelines set by AA1000 Stakeholder Engagement Standards, AccountAbility (2015) and the GRI Standards principles.

The result of this careful analysis of all the factors surrounding Panariagroup allowed us to identify all our stakeholders, as shown in the infographics.

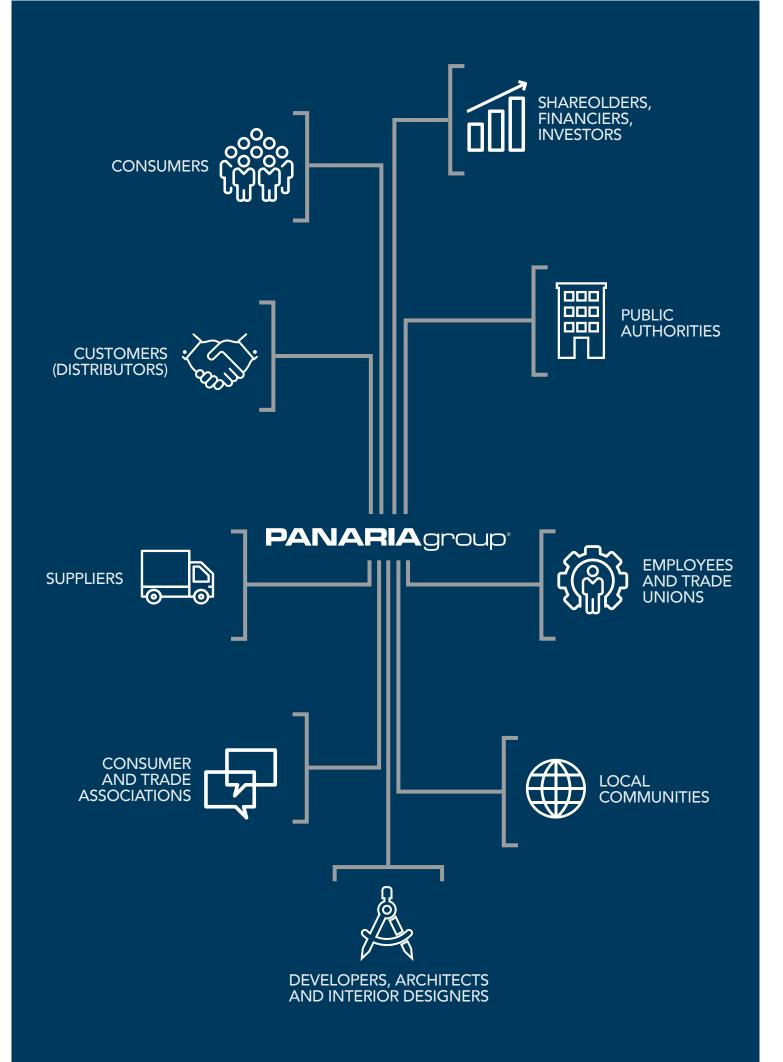
Panariagroup maintains a constant level of communication with its stakeholders, keeping in mind its and their needs.

The Group has a constant relation with its investors and with financial analysts, and commits to share, with full transparency, every necessary communication as required by the listing to the Milan Stock Exchange. Panariagroup also cooperates with numerous trade associations; specifically, it is a member of Confindustria Ceramica (the branch of the General Confederation of Italian Industry dedicated to ceramics) and takes

part in its environment and security boards; it is also a member of U.S. Green Building Council and an associate of Green Building Council Italia. The Group has a steady relationship with the trade unions, and an open channel with the various institutions in charge of releasing authorisations and performing environmental audits. In order to enhance its relationship with architects and developers, the Group also created a specific commercial unit.

Panariagroup also developed, in time, a strong relationship with local communities, particularly in low industrialisation areas such as the locations of its Toano (Reggio Emilia, Italy), Finale Emilia (Modena, Italy) and Lawrenceburg (Kentucky, USA) plants.

PANARIAGROUP
MAINTAINS A
CONSTANT LEVEL OF
INTERACTION WITH
ITS STAKEHOLDERS,
KEEPING IN MIND ITS
AND THEIR NEEDS



1.4 MATERIALITY ANALYSIS

A materiality analysis is the process on which the writing of a Report on Sustainability is based. This process aims to identify the economic, environmental and social aspects that are "material" – that is, more meaningful – for both the company and its stakeholders.

The results of this analysis became therefore the starting point for all the reporting activities carried out during the creation of this Report.

The first step of the process was the selection of a wide range of topics that could potentially be meaningful for the company and its stakeholders.

We have therefore analysed the GRI Standards, the U.N. Sustainable Development Goals (SDGs), the results of a benchmark analysis specifically focused on sustainability in the ceramic industry and the challenges linked to sustainability and climate change according to a framework set by Deloitte. The potentially relevant themes were presented to the top managers during a specific workshop; those managers were then asked to evaluate all the above

factors and aspects from the perspective of the company.

We have then highlighted the needs and requirements of the Group's stakeholders. We have also considered our presence in the USA and in Portugal, as included in this report.

THE FIRST STEP
OF THE PROCESS
WAS THE SELECTION
OF A WIDE
RANGE OF TOPICS
THAT COULD
POTENTIALLY BE
MEANINGFUL FOR
THE COMPANY AND
ITS STAKEHOLDERS



In the future, Panariagroup intends to involve its stakeholders in an even more active role in the process of identifying and prioritising the more central themes, highlighting their collective impact.

The results of the analysis have been elaborated and set in the materiality matrix reported as follows. Please consider that:

- each point represents a topical array of aspects that have been considered material;
- each point is spatially positioned according to its relevance for the Group and its stakeholders.

The materiality matrix, approved by the Board of Directors, highlights how **Economic Accountability, Employee Health and Safety, Innovation and Technology, Governance and Risk Management have been identified as key topics both for the Group and for its stakeholders.** Those are pivotal aspects that refer to the strategy implemented in time by Panariagroup, which has always invested on such topics.

From the matrix we also understand the importance Panariagroup gives to **Quality, Design and Sustainability of the products,** a key issue for the industry the Group operates in.

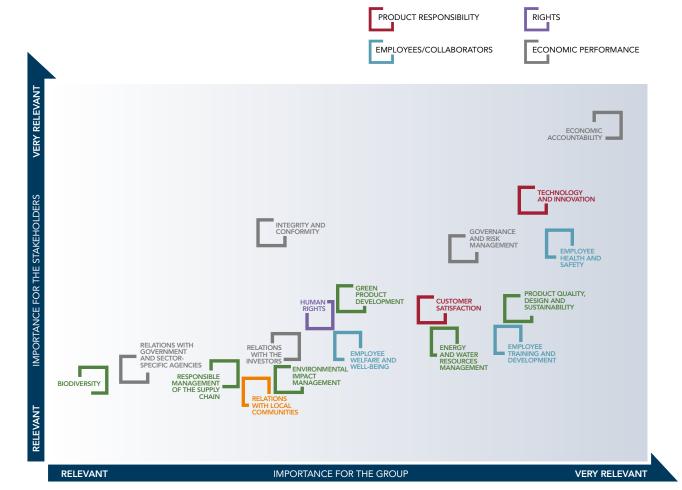
Also relevant are the Management of Energy and Water Resources, particularly important in the Group's production process, and Customer Satisfaction, which also is paramount: Panariagroup already has business units dedicated to thoroughly serve the Group's Customer base.

At the same time, the stakeholders made clear that what they consider particularly relevant are Integrity and Conformity, thus confirming that respect of laws and regulations and transparency are paramount for them.

The table in the next page has the aim to highlight the impact of the main topics emerged during the materiality analysis.

THE MATERIALITY
MATRIX HIGHLIGHTS
HOW ECONOMIC
ACCOUNTABILITY,
EMPLOYEE HEALTH
AND SAFETY,
INNOVATION AND
TECHNOLOGY,
GOVERNANCE AND
RISK MANAGEMENT
HAVE BEEN IDENTIFIED
AS KEY TOPICS BOTH
FOR THE GROUP AND
FOR ITS STAKEHOLDERS

THE MATERIALITY MATRIX



ENVIRONMENT

COMMUNITY

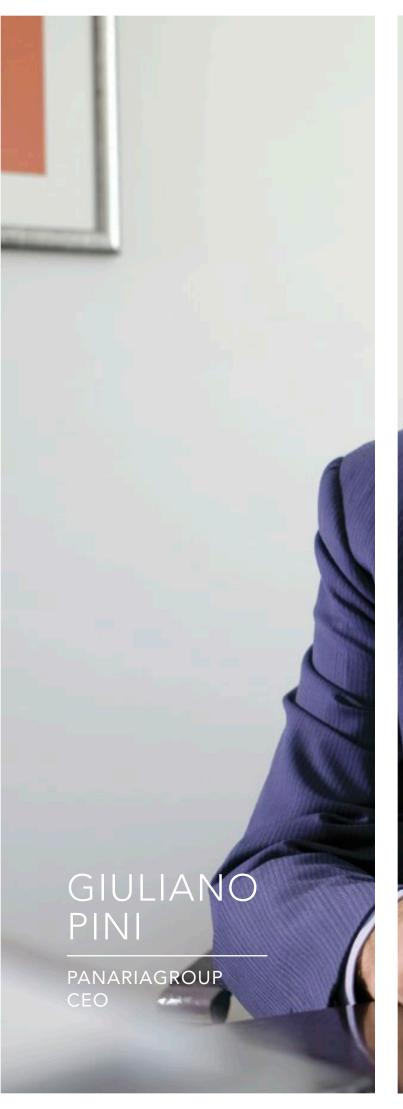
The following table shows the perimeter of the impact of the material themes. Its aim is to identify what plants, territories or entities within Panariagroup have

a stronger impact on the material topics highlighted in the materiality matrix.

PERIMETER OF THE IMPACT OF THE MATERIAL TOPICS

MAIN TOPICS	IMPACTS
Economic Accountability	The Group
Governance and Risk Management	The Group
Integrity and Conformity	The Group
Relations with the Local Communities	All of the Group's plants, in particular those located in low industrialisation areas
Human Rights	The Group and its suppliers*
Relations with Government and Sector-Specific Agencies	The Group
Relations with the Investors	The Group
Employee Welfare and Well-Being	The Group
Employee Training and Development	The Group
Employee Health and Safety	The Group
Energy and Water Resources Management	The Group
Environmental Impact Management	The Group's plants and its suppliers*
Responsible Management of the Supply Chain	The Group and its suppliers
Product Quality, Design and Sustainability	The Group
Technology and Innovation	The Group
Green Product Development	The Group
Customer Satisfaction	The Group
Biodiversity	The Group and its suppliers*

 $^{^{\}star}$ The implications of the environmental and social impact of the Group's suppliers will be analysed in the next years.







1.5 2016



ECONOMIC

MLN EUROS 377

2.05 DEBT/EBITDA RATIO

40.8 MLN EUROS EBITDA

MLN EUROS NINVESTED 38.1

11.2 MLN EUROS OF NET EARNINGS

0.247 EUROS EARNINGS PER SHARE

ENVIRONMENTAL



LOW ENERGY CONSUMPTION

92% WASTE SENT TO RECYCLING

LIMITED EMISSIONS 0.009

100% RAW WASTE RECOVERED DURING PRODUCTION

SOCIAL



1,666 EMPLOYEES

EMPLOYEES WITH A PERMANENT CONTRACT

70% EMPLOYEES UNDER COLLECTIVE BARGAINING AGREEMENT

LOW INJURY RATE (INJURIES PER 100,000 WORKING HOURS)

ACCIDENT SEVERITY RATE (WORKING DAYS LOST PER 100,000 WORKING HOURS)

338,000 EUROS CONTRIBUTED TO THE COMMUNITIES

1.6 THE GROUP'S STRATEGIC TARGETS

Panariagroup aims to improve its impact on society from an economic, social and environmental point of view. This is why it has set a series of strategic targets to be achieved in the next few years.



ECONOMIC THEMES

COMPLETION

Installation of a third production line in our Fiorano Modenese plant (Italy), with a 60% increase in the output of big-size, laminated porcelain stoneware slabs, whose production involves a lower environmental impact and an increase in employment	2017
Installation of a new, complete production line in our plant in Aveiro (Portugal), including a press, a kiln, a new-generation oven, selection, rectifying/lapping	2017
Completion and inauguration of a new NDC (National Distribution Centre) in our USA plant, with an 11,000 m ² increase in covered surface and a 15,000 m ² outside plot	2017
Installation of new equipment in our Italian business unit: 3 digital printing machines, 2 cutting/rectifying lines, 1 kiln, 1 complete equipment for material handling with laser guided vehicles	2017
Industry 4.0: adhesion to the incentives for digitalisation (as per art. 3 D.L. 23 rd December 2013, #145 as replaces by art. 1, comma 35, Legge di Stabilità 2015 and modified in the Legge di Bilancio 2017)	2017



COMPLETION

Introduction of a new, consistent evaluation system for new suppliers, based on social and environmental criteria and on their respect of human and workers' rights	2019
Development of Impact Assessment and Risk Analysis on social and environmental impacts during the whole supply chain	2020

ENVIRONMENT AND QUALITY

are	2017
	2017
e neon tubes	2017

COMPLETION

Progressive extension of the ECOLABEL environmental certificate to all the porcelain stoneware collections produced in Italy	2017
Upgrade according to anti-seismic guidelines of the whole Italian Finale Emilia plant	2017
Installation of L.E.D. and magnetic induction lighting in the Italian Finale Emilia plant to replace neon tubes in order to strongly lower energy consumption	2017
Complete replacement of the existing covering with eco-compatible material in the whole Italian Finale Emilia plant	2017
Progressive achievement of EPD (Environmental Product Declaration) for all porcelain stoneware and laminated porcelain stoneware collections in the Italian business unit through installation and use of dedicated software	2018
Update of the quality and environment management systems in accordance with the new ISO 9001:2015 and ISO 14001:2015 rules in our Italian and Portuguese business units	2018
Implementation of a certified quality management system in accordance with rule ISO 9001:2015 in our USA plant	2018

HUMAN RESOURCES

COMPLETION

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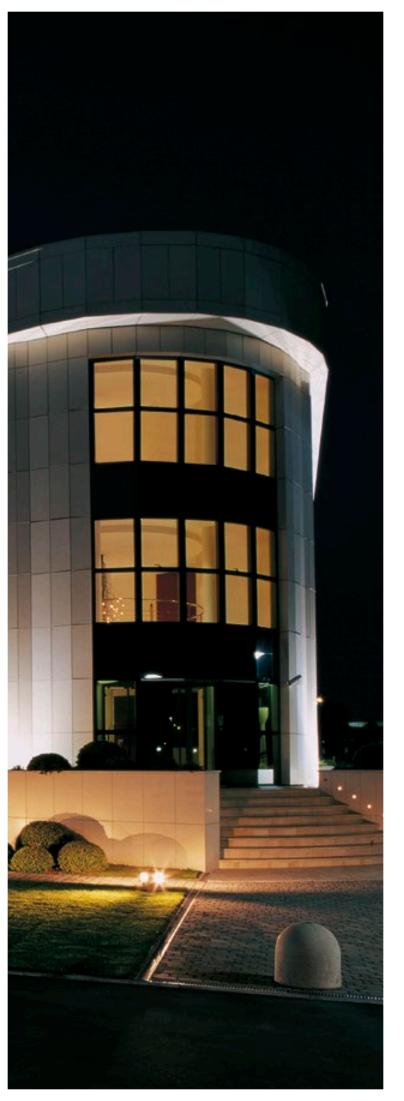
Activation of trade/supplementary contracts for Italian employees in Finale Emilia, Fiorano Modenese, Sassuolo and Casalgrande, including company-led welfare initiatives in relation to supplementary pension/providence allowances, health insurance and services directed towards the employees and their families	2017
Implementation of a reward system for Managers, related to company and individual targets (MBO) in	2017

GOVERNANCE

COMPLETION

-'	'	"	'
		7	1

Installation of the SAP system to manage all processes in our USA business unit	2017
Integration of our organisational model for security management in the Italian business unit through the installation of an ad hoc software and a more centralised plant management	2017
Adherence to the UN Global Compact principles	2017
Improvement to the entrance control systems to all Italian sites through installation of dedicated software and hardware	2018







2.1THE GROUP'S PROFILE

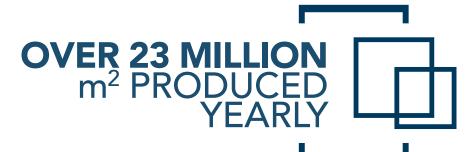
With over 1,600 employees, more than 10,000 customers, 6 production plants (3 in Italy, 2 in Portugal, 1 in the USA) and a turnover of 377 million Euro in 2016,

Panariagroup is one of the main producers of flooring and wall covering ceramic tiles for the upper and luxury segment of the market.











OVER 10,000



MARCO MUSSINI





2.2 HISTORY

A constant evolution process, driven by the ability to confirm Panariagroup as a vanguard group from a technological point of view – and not only.

1974 >

In **1974**, Panaria Ceramica was founded by a group of entrepreneurs; among them was Giuliano Mussini, head of the Mussini family, the current major shareholders of Panariagroup Industrie Ceramiche S.p.A.

<u> 1992 </u>

During the 1990s, Panaria implemented a strategy of expansion and extension of its brands and products through the acquisition, in **1992**, of Ceramiche Artistiche Lea, a company specialised in the production of white body single-fired floor tiles, and by founding, that same year, Cotto d'Este, a brand creating and producing high-end lines aimed for the luxury bracket of the market.

◆ 2009

₹ 2008

After years of successful commercialization of laminated porcelain stoneware, a revolutionary, high performance material, fruit of state-of-the-art technology, in **2009** the Panariagroup installed the first production line for this product at the Fiorano Modenese plant.

Blustyle Ceramica was created in **2008** to offer on the market an agile and innovative model, in terms of both product rationale and distribution methods. The company gradually flourished and is today an official brand of Cotto d'Este, with whom it shares all quality characteristics in standard thickness products.

2010 >

2012 >

The expansion of Panariagroup does not stop here and in **2010** a new sales organisation, Panariagroup Trade, was established. Its purpose is to obtain important market shares in the Middle East, the Far East and Oceania. Panariagroup Trade has the purpose of distributing the brands of the Group in these new areas by means of specific sales policies that respect the identity and peculiar features of each brand.

The most recent step in the Panariagroup internationalisation process happened in **2012** with the joint venture with Asian Granito, a leading company in the Indian market. The "Bellissimo" brand was launched with the purpose of producing and selling on the Asian market luxury ceramic products with high value in terms of style and technology.

In 1995 the production capacity of the company was increased with the construction of the technologically advanced production site in Toano (Reggio Emilia, in the north of Italy), specialized in the production of porcelain stoneware. In that same year, Fiordo Industrie Ceramiche was founded in order to strengthen the market leading position.

The process of expansion into international markets became a reality with the acquisition, in 2002, of Maronâgres (today Margres), an important company in the field of porcelain stoneware in Portugal.

▼ 2005

In 2005 Panariagroup acquired another company in Portugal, Novagrés, called Love Tiles today, a leading manufacturer of large size monoporosa wall tiles and glazed porcelain stoneware floor tiles. The process of internationalisation continued in 2006 with the acquisition of the trademark and main assets of Florida Tile Industries, a historical brand in the United States for the production and distribution of ceramic tiles. In December 2006, the two Portuguese companies Novagrés and Margres merged into Gres Panaria Portugal whilst retaining the two different brands separate. Furthermore, Panariagroup USA Inc. was established to run Florida Tile and Lea North America.

In 2004 all the Panaria Italian companies merged into Panariagroup which was then listed on the STAR segment of the Italian Stock Exchange on **November 19**th of the same year. The internationalization process continues with the founding, in 2004, of Lea North America LLC, that is specialized in the commercialization of Lea products in the USA.

2017

Over the next few years the company underwent a process of constant evolution, to affirm itself as, among other things, a technologically avantgarde business Group. Industrially speaking, between 2015 and 2016, the technology systems of all the manufacturing facilities were updated to fully satisfy the new market trends. During the same period, an effort to reorganize the sales networks, introduce new distribution channels, and more accurately redefine the positioning of various brands was begun to create an efficient spectrum of market coverage and of the various target seaments.

2.3 PANARIAGROUP IN THE WORLD

Panariagroup actively operates, in Italy and abroad, through nine brands: Panaria Ceramica, Lea Ceramiche, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margres, Love Tiles and Bellissimo, thus serving a customer base as diverse as it is focused on the products' technical and aesthetic quality.

PANARIAGROUP ACTIVELY OPERATES, IN ITALY AND ABROAD, THROUGH NINE BRANDS

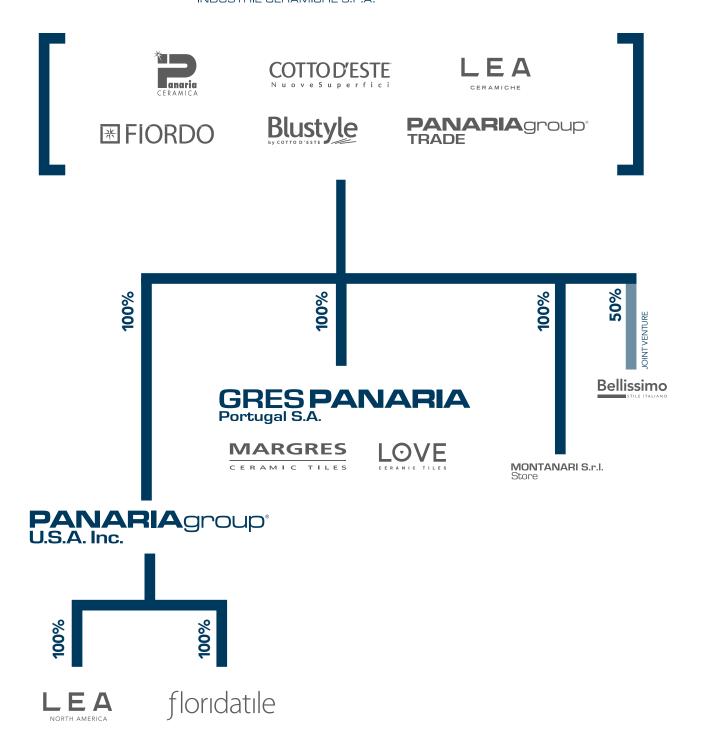
The table on the next page details the Group's structure. Please be aware that this Sustainability Report refers to the Group's activities in Italy, USA and Portugal.

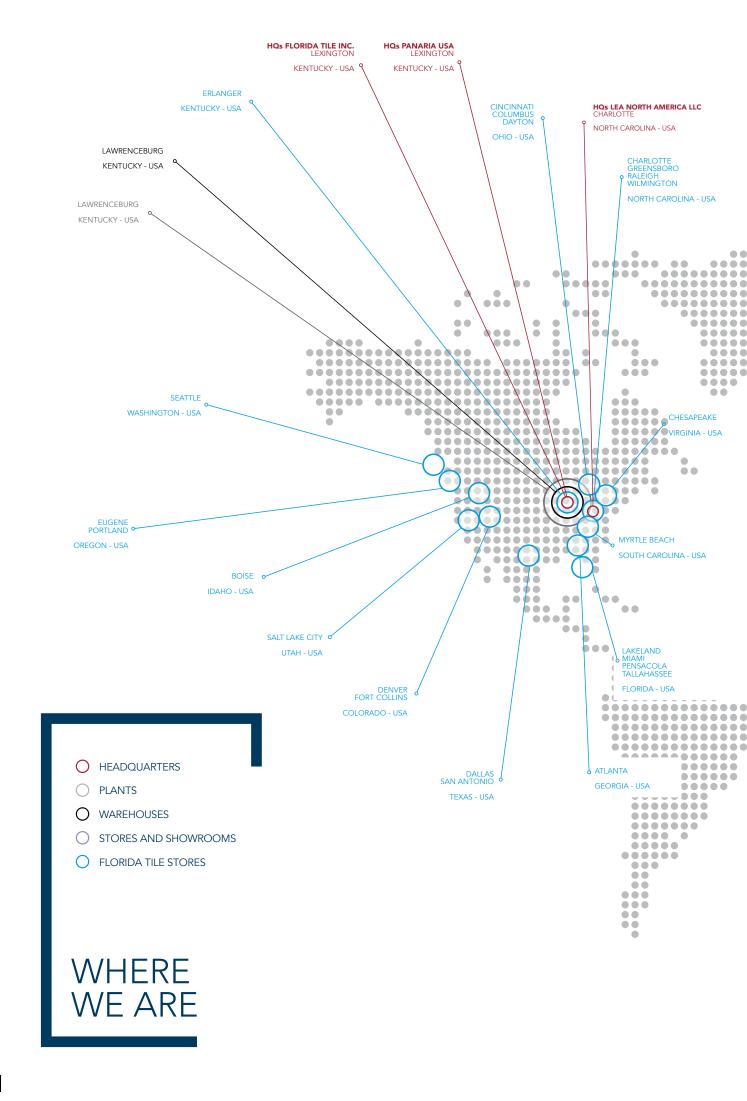
The parent company is Panariagroup Industrie Ceramiche S.p.A., located in Finale Emilia, Modena, Italy. Further operative and production sites are situated in Fiorano Modenese, Modena (Italy); Toano, Reggio Emilia (Italy); Ilhavo (Portugal); Aveiro (Portugal) and Lawrenceburg, Kentucky (USA). Panariagroup is present in Italy, Portugal, USA, India and **over 120 countries all over the world** with an extensive and widespread sales network managing over 10,000 customers worldwide, mostly resellers but also distributors, building companies and the commitments of major-scale public works.

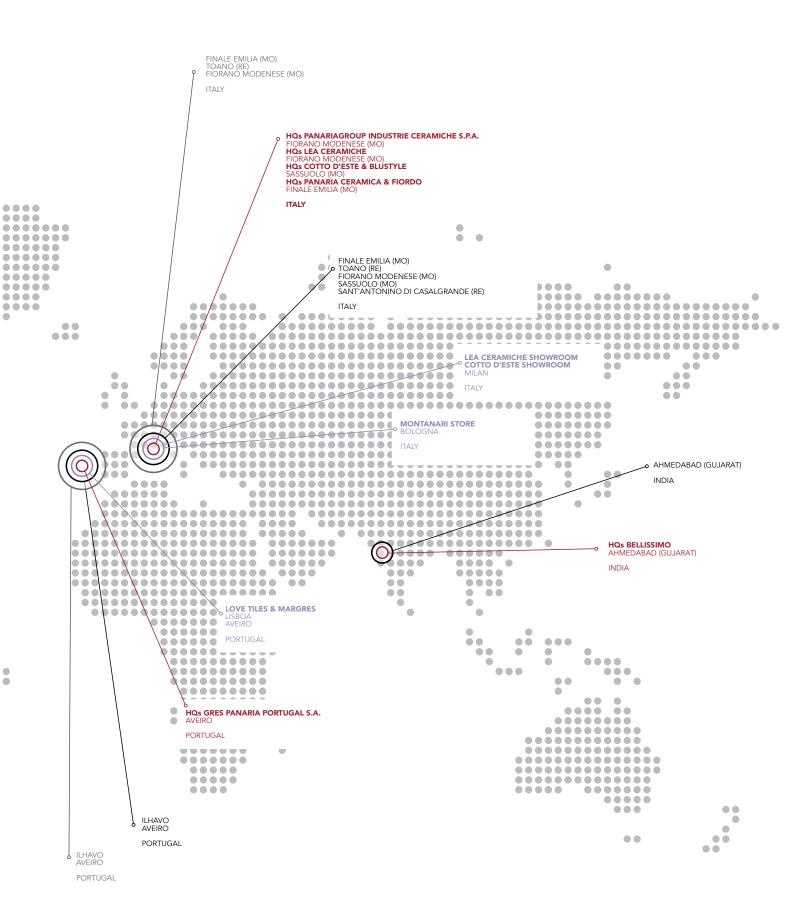
The retailing and distribution, both on a national and on an international level, of every Panariagroup product are coordinated by a structure of around 1,000 people: area managers, business/commercial correspondents, sales agents and promoters. Furthermore, in the USA, the Group directly manages 24 stores distributed all over the nation

PANARIAGROUP IS
PRESENT IN ITALY,
PORTUGAL, USA,
INDIA AND OVER
120 COUNTRIES ALL
OVER THE WORLD
WITH AN EXTENSIVE
AND WIDESPREAD
SALES NETWORK

PANARIA GROUP®







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2.4THE VALUES OF THE GROUP

TECHNOLOGICAL LEADERSHIP

We constantly invest on **groundbreaking research**, **technology and plants** in order to promptly respond to any architectural or interior design-related requirement with innovative solutions, each of them bound to become a reference for the whole sector.

QUALITY AND AESTHETIC EXCELLENCE

We always aim for industrial excellence, from the quality of the raw material to the efficiency of the production process, in order to obtain a product able to join absolute aesthetic value to the highest technical standards.

ACCOUNTABILITY

We always give a central role to the individuals and to their quality of life, with products that are safe and environmentally sustainable, and always operating with the maximum respect towards those who work for or with us.

RELIABILITY

The guarantee of a Group that, from its family-run beginnings in the Sassuolo ceramics district to its market quotation in the Milan Stock Exchange, has grown to become a **solid international business**, operating all over the world without losing its Italian heart.



2.5

MANAGEMENT STRUCTURE AND GOVERNANCE

Panariagroup is a public company that, in 2004, joined the MTA, the leading equity market managed by the Italian Stock Exchange, being slotted in the STAR segment (STAR = Segmento Titoli Alti Requisiti, Segment for Titles with High Requirements).

Its insertion in the STAR segment involved a retouching of the company's organisation structure in accordance to the self-discipline principles imposed by Borsa Italiana S.p.A. in March 2006 and to international best practices.

Panariagroup's business structure is based on a traditional model formed by three bodies: an Assembly, a Board of Directors and a Board of Auditors.



The shareholders' Assembly represents all the business associates. It is the body in charge of deliberating, in ordinary and extra-ordinary meetings, on topics assigned to it by the law or by the company charter.

The Board of Auditors is in charge of monitoring matters such as the respect of the law, correct administration standards, the adequacy of the company's organisational structure, the adequacy of the instructions provided to the various Companies within the Group in relation to the information to provide in order to comply with the reporting requirements.

The Board of Directors manages the Group and pursues the primary objective of creating value for the shareholder, actively operating to define the industrial strategies and intervening directly in every decision pertaining to the main management topics, which fall under the Board's exclusive responsibility.

The Panariagroup **Board of Directors** is made up of ten members, includes both executive and non-executive directors, and oversees management and the Group's strategic decisions. Led by the Mussini family since its establishment, it is now run by Emilio Mussini, as Chairman, and Giuliano Pini, as Executive Director.

COMPOSITION OF THE BOARD OF DIRECTORS

FULL NAME	ROLE	YEAR OF BIRTH	EXECUTIVE ROLE	AUDITING COMMITTEE	RELATED PARTIES COMMITTEE	REMUNERATION COMMITTEE
Mussini Emilio	President of the Board and CEO	1961	•			
Mussini Paolo	Vice-President and CEO	1958	•			
Mussini Andrea	Vice-President	1958				
Pini Giuliano	CEO	1952	•			
Mussini Giuliano	Administrator	1930				
Mussini Silvia	Administrator	1967				
Prodi Daniele	Administrator	1961		•	•	•
Bonfiglioli Sonia	Independent Administrator	1963		•	•	•
Ferrari Tiziana	Independent Administrator	1973		•	•	•
Bazoli Francesca	Independent Administrator	1968				



The presence of non-executive and independent Administrators in the Board of Directors is meant to guarantee a positive confrontation and a dialogue while taking collective decisions, ensuring an adhesion of the same to the company's interest and allowing the Board to deal, in a sufficiently independent way, with issues that may cause conflicts of interest.

Within the Board of Directors, are also present:

- the Auditing and Risk Prevention Committee: with a consulting and advisory role, it reports to the Board of Directors about its own work and about the adequacy of internal controls. The Committee is completely autonomous and independent both from the CEOs, for what concerns the safeguard of the company's integrity, and from the auditing company for what concerns the evaluation of the conclusions drawn in their report and in their advisory communications;
- the Remuneration Committee, in charge of formulating proposals to be brought before the Board of Directors, in case of the absence of the interested parties, for remuneration and for possible stock option or stock assignment plans of the CEOs and of those in specific roles within the company. Complete details on the Remuneration Policies for the Board members are on the Panariagroup official website at the link "Report on Remuneration";
- the Related Parties Committee, in charge of monitoring and ensuring transparency and openness in any operation involving Related Parties, as per the "Procedure for operations with Related Parties" approved by the Panariagroup Board of Directors.

The Panariagroup Related Parties are: the parent company Finpanaria; the related company

Immobiliare Gemma; the companies under direct and indirect control; the Administrators and their families.

In order to monitor closely and effectively the Sustainability aspect, the Board of Directors proposed the creation of an "Operational CSR Committee".

Said Committee is in charge of all choices linked to Sustainability and Corporate Social Responsibility, coordinating the process of reporting on the data related to the present Report on Sustainability. The members of this Committee represent several areas of the company: Administration, Finance and Control; Investor Relations; Communications; Quality, Environment, Health and Safety Management.

2.6INTEGRITY AND CONFORMITY

The theme of integrity and conformity has emerged amongst the most important ones during the Panariagroup Materiality Analysis. The company is extremely aware of the need to ensure transparency and openness in the conduction of its business, in order to preserve its position and public image, to meet the expectations of its stakeholders and to respect the work of its employees.

In this context, the Group enacted policies aimed at joining economic, social and environmental development with a culture based on ethics, justice and respect of human rights. For these reasons, Panariagroup felt it was highly necessary to develop an attitude of cooperation with customers, employees, suppliers and anyone whose life is touched by the Group's activities. That's why the Group committed to fight against child labour, forced labour and discrimination, and guarantees its employees full freedom of association as established by the International Labour Organization and following the OCSE guidelines for multinational companies.

The social, environmental and economic responsibilities Panariagroup is invested with are a precious chance to display the Group's strong, proactive leadership. In this context, the creation of the Group's first ever Sustainability Report is a key moment, displaying transparency and awareness towards the Group's stakeholders and everyone Panariagroup has an impact on.

Panariagroup's status on the Stock Market imposes to the Company the adoption of the highest standards for what concerns conformity to the relevant legislation. For instance, the internal organisational structure has been integrated with

individuals in charge of specific aspects of the compliance process, such as a figure in charge of Internal Audits and a Manager in charge of redacting all of the company's documents related to accountancy.

For what concerns the prevention of corporate crimes, Panariagroup – aware of the need to ensure openness and transparency in its activities – adopted an Organisation, Management and Control Model in accordance to Legislative Decree #231, June 8th, 2001.

Amongst the key points in this Model are Ex-Ante and Ex-Post activities such as the mapping of the areas within the company at risk of committing corporate crimes, the prevention of such risks through the adoption of specific procedures, the checking and documentation of all the related operations, the respect of the principle of the separation of functions, the checking of any related behaviour and the adoption of a disciplinary system apt to sanction a lack of adherence to the chosen measures. In order to guarantee the adherence to such a Model, an Invigilation Organ was created. It is formed of three members: one in charge of internal audits (Internal Auditor) and two independent members with professional qualifications that make them suitable for the role.

For further information, please refer to the Organisation, Management and Control Model created in accordance to Legislative Decree #231, June 8th, 2001, published on November 15th, 2013 and available on the Panariagroup official website.

For what concerns the fight against corruption, both active and passive, the Group is always ready to adhere to the national and international laws and adopted an Organisation, Management and Control Model in accordance to Legislative Decree #231, June 8th, 2001. All activities and organisational structures are monitored and doublechecked according to the guidelines set by the Model, and specific hours during personnel training are dedicated to the topic of corruption. We signal that, in the year 2016, no episodes of corruption have been highlighted.

For what concerns compliance with the environmental, safety and hygiene on the workplace laws, Panariagroup adopted specific policies aimed at supporting environmental safeguarding, in the respect of the laws and in full cooperation with the local authorities and communities. Specifically, according to what established in Legislative Decree 152/06 "Environmental Laws", the Group obtained, for the Finale Emilia, Toano and Fiorano Modenese plants, the renewal of the IPPC - Integrated Pollution Prevention and Control - certification. Within the Panariagroup plants and office buildings, we guarantee the highest health and safety standard both through a thorough application of Legislative Decree 81/08 "On Work Health and Safety" and through an internal management system including risk-prevention procedures, workers' protection and constant monitoring.

A further aspect is the management of reserved and privileged information. The company has created a specific procedure to deal with those, applying the current laws and regulations.

We also highlight how the Panariagroup **Consolidated Financial Statement has been** certified, since 1997, by a relevant auditing agency, which never brought up any issues. Since 2004, the year in which Panariagroup entered the

stock market, the Biannual Statement is also audited. Starting from the upcoming fiscal year, the Report on Sustainability will also undergo an external audit.

The Separate Financial Statements of Panariagroup Industrie Ceramiche S.p.A. and all the companies under its control are audited yearly, with subsequent emission of an auditor's official opinion.

The Group employs qualified personnel and hires freelance professionals to manage and monitor its conformity to fiscal laws and regulations.

> THE **SOCIAL**, **ENVIRONMENTAL** AND ECONOM RESPONSIBILITIES PANARIAGROUP IS DISPLAY THE GROUP'S STRONG, PROACTIVE LEADERSHIP







3.1THE GROUP'S ECONOMIC RESPONSIBILITY

The history of Panariagroup is rooted in an area known worldwide for the production of porcelain stoneware. The Modena and Reggio Emilia territory, and specifically the Sassuolo area, are home to numerous companies who have their core business in the production of ceramic surfaces. It is the perfect context in which to grow an entrepreneurial project aimed towards the highest quality and manufacturing excellence.

With the passing of time, parallel with the economic development of the area, the technical skills of ceramic workers have grown immensely.

+5%

EMPLOYMENT
LEVEL IN THE
GROUP COMPARED
TO 2015

With the start of the economic crisis, however, many companies have struggled and some have decided to move their production lines abroad. On the contrary, Panariagroup, despite being in the same context, has decided, with awareness and a sense of responsibility, to maintain its roots in the land it was born in, guaranteeing a steady level of employment.

Panariagroup proudly represents "Made in Italy", and the key to its success are products developed in Italy.

Paramount for the Group is also to **support the prosperity of the areas in which it operates,** maintaining the employment levels, promoting relations with the local communities and creating shared value.

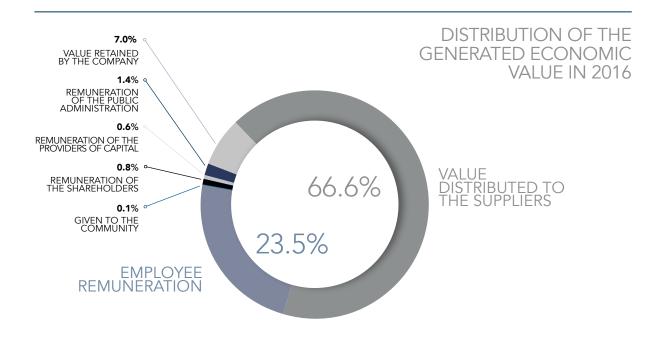
When operating outside Italy, Panariagroup has also maintained a strong territorial identity, **supporting the local economic and social development** (for instance in the Aveiro area, in Portugal, and in Lawrenceburg in Kentucky, USA).

Always in a close relationship with the areas it operates in but also focused on national and international dynamics, the Group – also thanks to its presence on the stock market – is always aware of its responsibility towards its shareholders, actual and future, and financial institutions. The Group is always committed to reach development targets aimed to increase the company's value through an adequate reinvestment of the net earnings and an equally adequate share policy through which the stakeholders receive their remuneration.

In order to maintain a constant exchange of information with the national and international financial community for what concerns the management of the Group, we have put in place an Investor Relations structure to develop the relationship with those important stakeholders.

PARAMOUNT FOR THE GROUP IS ALSO TO SUPPORT THE PROSPERITY OF THE AREAS IN WHICH IT OPERATES, MAINTAINING THE EMPLOYMENT LEVELS, PROMOTING RELATIONS WITH THE LOCAL COMMUNITIES AND CREATING SHARED VALUE

Thanks to the classification of the Generated Economic Value, represented below, it is possible to focus on the distribution to the stakeholders of the value created by the Group.



From the Generated Economic Value table, it can be noted how the majority of the same is **reserved to** the purchase of raw material and therefore to the suppliers.

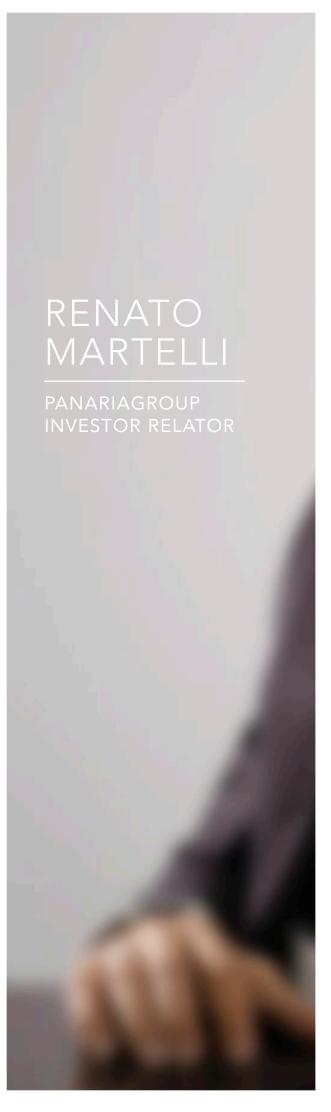
Part of the Group's distributed value is reserved to the remuneration of the employees. On this topic, it is important to be aware of the fact that **the number** of the Group's employees grew by 5% in the last two years, with no substantial change in the number of Italian employees. This is important in particular considering the complex economic and occupational situation in Italy.

Panariagroup, aware of its economic responsibility, has decided to maintain a strong link with the territory keeping constant the employment levels in its plants and guaranteeing a fair remuneration to all its employees.

In the Generated Economic Value table are also noted the contributions given by Panariagroup to benefits, sports teams and associations. Those are donations of money or of product.

For what concerns the Group's investments, our efforts have been focused on the technologic innovation of the plants, on the development of products of the highest quality and responding to the highest aesthetic standards and on an increase of productivity and production capacity.

On this topic, Panariagroup has never ceased - not even in the years in which the economic context was uncertain - to pursue a policy of technologic innovation of the plants, of increase of the production capacity and of an improvement in efficiency.







MILLION EUROS SALES VOLUME 377



MILLION EUROS NET INCOME

In the last four years, **the Group invested over 100 million Euros** (over 8% of its sales volume) to maintain its position in the small group of companies considered leaders in their sector, without ever compromising its financial balance, strengthening instead its asset structure.

INVESTMENTS

YEAR	TOTAL % OF EARNING (IN MILLIONS OF EUROS)		
2013	16.9	6.2%	
2014	13.9	4.8%	
2015	38.2	11.1%	
2016	38.1	10.1%	

It is a serious investment, especially when comparing it with the net income. It is to be noted how, in the last two years (2015 and 2016), the percentage of the investments against the income has nearly doubled when compared to the same in the previous two-year period (2013 and 2014).

In 2016, in particular, the Group invested

13.7 million Euros in Italy (amongst the main destinations of such investments are the completion of a new line for the production of laminated stoneware in Fiorano Modenese and the refurbishment of the buildings in Finale Emilia);

19.2 million Euros in the USA (including the national distribution centre) and 5.2 million Euros in Portugal (particularly noticeable the buffing and sorting lines and those created for digital printing).

Panariagroup also constantly takes part in programs of national and EU-wide incentives linked to innovation and research and development. For instance in 2016, in Portugal, the Group presented an investment plan for the years 2016 and 2017

for a total value of 10 million Euros that will allow it to enjoy facilitated financing and, once reached certain "investment return" targets, non-repayable contributions.

In the last three years the Group, in an economic context that hasn't always been favourable, **has seen a growth in income of over 100 million Euros.** The average growth ratio in this period (+11.4%) allowed to increase the Group's presence on the market.

FARNINGS

YEAR	THOUSANDS OF EUROS
2013	272,971
2014	290,679
2015	342,910
2016	377,045

In 2016, the Group confirmed its vocation as a worldwide operator, with 82% of its sales volume on markets different from the Italian one; over half of the non-Italian sales happened outside Europe.

This growth in profit came along with an increase in the economic achievements. The ability to generate earnings through its operational management is confirmed by the Panariagroup EBITDA in the last four years.

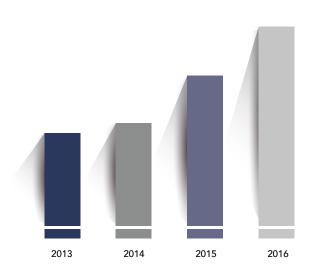
The results are extremely positive, and display a steady, balanced growth through the years.

40.8 MILLION EUROS EBITDA



EBITDA

YEAR	EBITDA EURO/000
2013	14,044
2014	21,038
2015	30,797
2016	40,828



The positive economic trend allowed an increase of the earning per share compared to 2015: from 0.129 to 0.247 Euro per share.

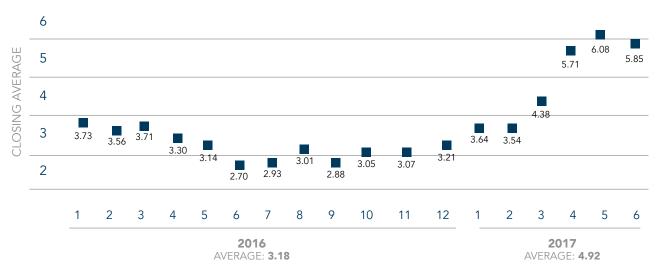
YEAR	EARNING PER SHARE	NET PROFIT (IN THOUSANDS OF EURO)
2015	0.129	5,865
2016	0.247	11,215

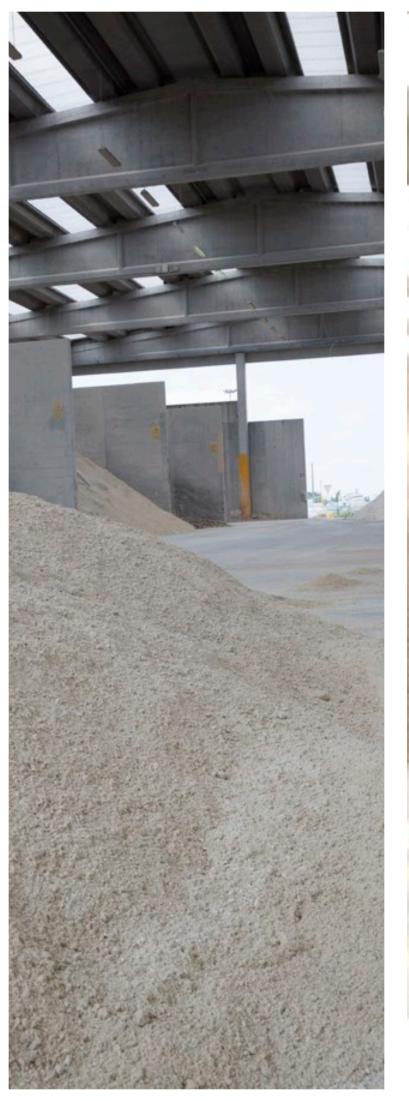
In the 2016 fiscal year, the value of the ratio between Net Financial Situation and Gross Operating Margin is 2.05. This index proves the sustainability of the finances of the Group, and highlights its reliability and its ability to respect its financial commitments.

YEAR	PFN/EBITDA	
2015	2.69	
2016	2.05	

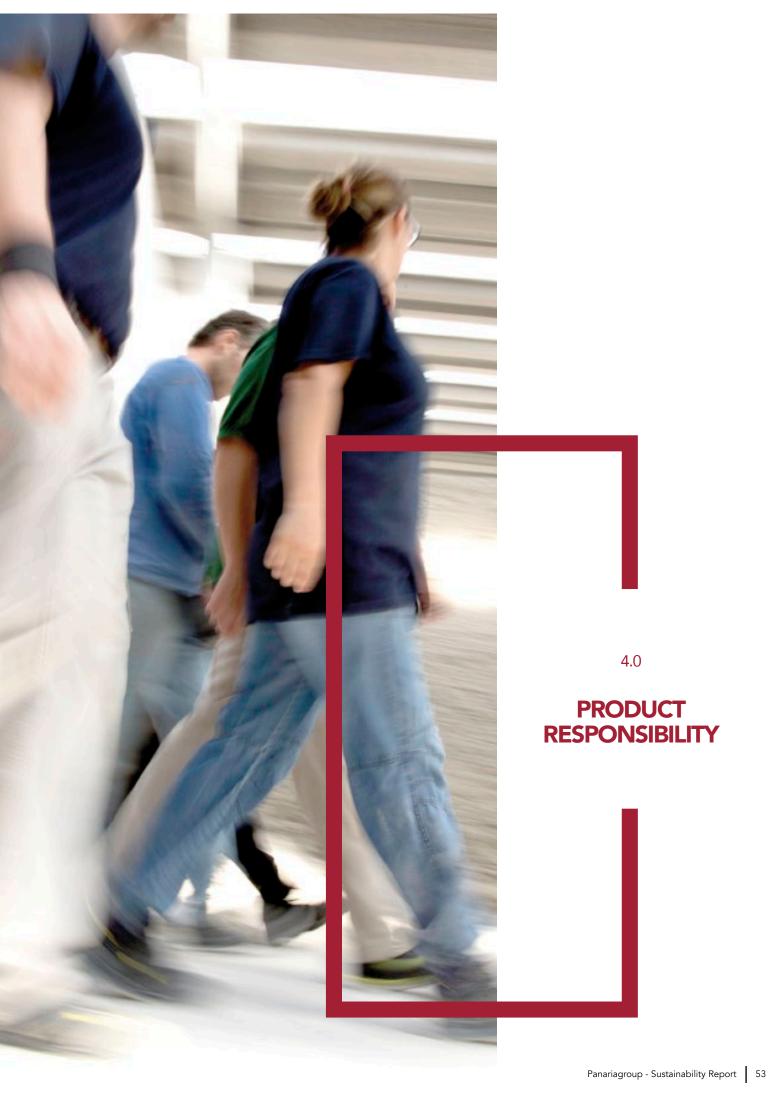
The positive economic results of the last years effectively display Panariagroup's ability to be competitive thanks to the value of the products and of the services offered by the Group, as confirmed by the customer base.

SHARE PRICE TREND









4.1PRODUCT QUALITY, DESIGN AND SUSTAINABILITY



Technologic innovation is the key for Panariagroup to reach new targets in the production of porcelain stoneware tiles and for what concerns the environment. The Group's product range joins the ancient art of ceramists with the most advanced standards for what concerns floors and coverings, offering specific solutions for any kind of needs, from big commercial surfaces to residential homes.

Panariagroup, in its plants, produces stoneware ceramic tiles or monoporosa (single fired) for wall coverings. In particular, the porcelain stoneware ("grès porcellanato") denomination indicates a dry-pressed ceramic product, extremely compact, characterised by excellent technical specifications (high mechanic resistance, resistance to wear, to chemicals and to stains) and very low porosity. This means that, during the firing phase (at a temperature of over 1,200° C), the product acquires an extremely low level of water absorption, which gives it a very high resistance to frost making them suitable to be used as outside flooring or wall covers.

Panariagroup is also the leader in the production of laminated porcelain stoneware, a revolutionary product manufactured with an extremely innovative system, derived from very advanced technologies and guaranteeing high performances. The Panariagroup laminated stoneware allows the creation of tiles characterised by an extreme

thinness (down to 3mm), produced in 300x100cm slabs with no need for moulds. A completely automatic cutting line allows then to obtain the various commercial formats. An extraordinary focus on quality during every step of the production cycle is another defining characteristic of the Panariagroup product: from the choice of the raw material to the next-generation industrial machineries, from the certifying to the post-sale support. All of this proceeds along our choices focused on sustainability, representing a constant push towards innovation and improvement of the processes.

PANARIAGROUP IS
THE LEADER IN THE
PRODUCTION OF
LAMINATED PORCELAIN
STONEWARE SLABS,
REVOLUTIONARY
PRODUCTS THAT
DRASTICALLY REDUCE
THEIR ENVIRONMENTAL
IMPACT

Concrete evidence of this are both the investment in a technology – laminated porcelain stoneware – that drastically reduces the environmental impact of the products and the choice to create a growing line of antibacterial products, thanks to the exclusive PROTECT technology. Those products represent a solid drive towards improving living styles.

The Panariagroup products were born in an environment strongly dedicated to design and aesthetics. The beauty of the materials takes from a strong, competent internal research and from the value of our business partners, not to mention important collaboration with international designers.

The Group's management team has consolidated, in over 40 years of activity, **exceptional knowledge and culture about ceramics**, that come through

both in the development of new ideas and in the finished product, becoming a strong asset in the creation of collections of the higher standards.

Proof of this are the innumerable references
Panariagroup received around the world, where
its products were chosen for extremely prestigious
works: this confirms the aesthetic and technical
value of the Group's materials.

Amongst those, particularly deserving of a mention is the Vertical Forest, the extraordinary, award-winning project by the architects Boeri, Barreca and Lavarra, in Milan. It is a work that stands for sustainability, giving evidence to the sinergy between nature and architecture, and in which Panariagroup took part with Cotto d'Este and Lea Ceramiche products.

THE PANARIAGROUP PRODUCTS HAVE RECEIVED IMPORTANT INTERNATIONAL AWARDS

LEA CERAMICHE, IN PARTICULAR, HAS RECEIVED NUMEROUS AWARDS:

2008 CITY WINS THE GOOD DESIGN AWARD, CHICAGO ATHENAEUM MUSEUM.

2014 TYPE 32 SLIMTECH WINS THE GOOD DESIGN AWARD, CHICAGO ATHENAEUM MUSEUM.

2016 TYPE 32 SLIMTECH, HONOURABLE MENTION, XXIV COMPASSO D'ORO ADI AWARD.

2016 NAIVE SLIMTECH, SPECIAL MENTION, GERMAN DESIGN AWARD 2016.

2016 NAIVE SLIMTECH WINS THE GOOD DESIGN AWARD 2016, CHICAGO ATHENAEUM MUSEUM.



4.2 OUR BRANDS

The Panariagroup brands, now increased over the years to become nine, all **enjoy international high reputation and achieved excellence both aesthetically and technically.** Each brand has a specific, distinctive character, but they are all intended and developed to respond to the needs of a clientele that, despite being diverse, shares a specific attention to quality and aesthetics. Here's a short description of each Panariagroup brand. They all operate in the ceramics sector, focusing on flooring and covering for the luxury band of the market, but each of them has different characteristics.



PANARIA CERAMICA embodies the Group's great ceramics tradition. Representing all main contemporary styles from the start, Panaria Ceramica is a brand with a deep ceramic culture. It offers high-end products created mostly to be used in residential contexts and a catalogue of rich and structured collections with a wide range of formats and decorative complements.



LEA CERAMICHE is the perfect combination of visionary design and technologic performance, and it is a creative partner anywhere in the world, for any kind of architectonic project requiring distinction through a unique, recognisable style. Continuous innovation, absolute reliability of technical performance and the capacity to dare made Lea Ceramiche an undisputed key player in international architecture, signing important and prestigious partnerships with internationally renowned designers and architects.



COTTO D'ESTE is the most prestigious brand in the field of ceramic surfaces. Its creations, synonymous with quality and beauty, are the product of fine craftsmanship and of a passionate and dedicated attention to detail. The profound commitment to aesthetic research and to developing unique and innovative technical solutions and environmentally friendly manufacturing processes has contributed to the brand's reputation for excellence, as confirmed by important international references. Cotto d'Este's surfaces are available in the unique 14mm thickness, as well as in the famous Kerlite large ultra-thin slabs, which have revolutionized the world of ceramics.



FIORDO product ranges are contemporary, well-designed solutions, simple, easy to interpret. The products are designed for residential use but are also ideal for outdoor and commercial uses. As always, the aesthetic and technological qualities are of the highest.



BLUSTYLE is the brand that offers all Cotto d'Este's quality and elegance with solutions in standard thickness that are simpler and affordable.



MARGRES, Portugal's leading brand of technical porcelain stoneware and an important player in the international market, supplies high quality products for all types of construction in private or public spaces, meeting the needs of contemporary architecture with state-of-the-art production technologies, high quality raw materials and sophisticated aesthetic qualities.



LOVE TILES is the leading trademark in the Portuguese market of monoporosa wall tiles of large sizes and glazed porcelain stoneware for floors. Love Tiles products seek to be a first choice for those who feel passionately about the connection between people and their living spaces through the creation of elegant, unique and distinctive environments.



FLORIDA TILE, with a Kentucky manufacturing facility and 24 showrooms in the United States, creates and sells innovative ceramic and natural stone flooring and coating products designed specifically to meet the needs of the American market. It's been part of the Group since 2006, but with over sixty years of history, the brand competes on the national market leaders thanks to its new production capacity and the continuous technical and aesthetic innovation of its products.



BELLISSIMO was born from a partnership between Panariagroup and Asian Granito, a leading company in the Indian market. The mission of Bellissimo is to produce luxury ceramic tiles that are a combination between Italian style, technology and know-how and the architectural needs of the Indian building industry.

4.3 INNOVATION AND TECHNOLOGY

Throughout the years, the Group followed a path of continuous evolution and is now one of the most advanced players in its industry. One of the main factors in the success of Panariagroup is the continuous research and development activity, aimed to identify new manufacturing techniques and innovative product lines, ready to answer the needs of a client base that is growing more and more attentive and diverse.

Panariagroup has an important research centre employing highly qualified technicians, engineers, architects and researchers, all moved by a will to constantly study new solutions in order to be competitive in the sector of ceramic flooring and coverings, maintaining the position of the Group as a market leader.

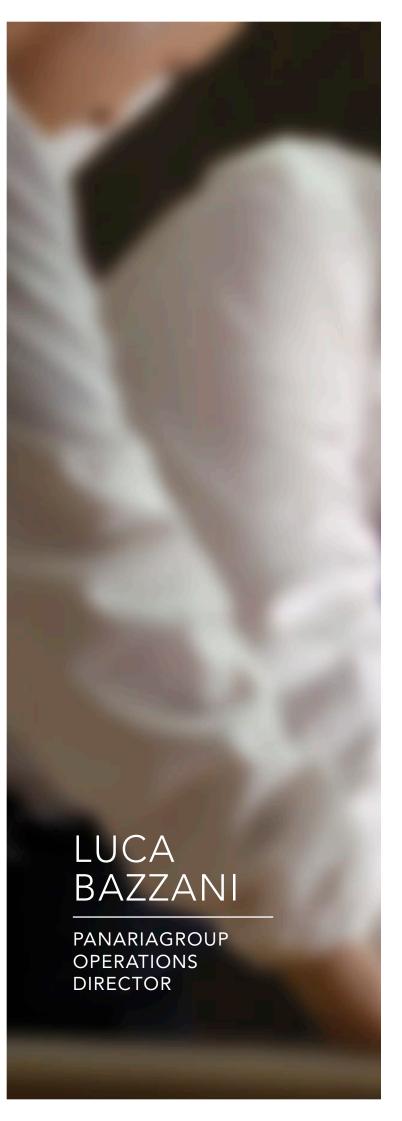
Innovation of process and product is a constant target for Panariagroup, echoing in all the plants in Italy, Portugal and the USA. Development and evolution of the production lines, continuous research, excellence in the choice of raw materials. variety and richness in the surface applications are a constant process and a daily challenge. Challenges such as having vision and investing on innovative technologies like laminated porcelain stoneware, a revolutionary product that has been one of Panariagroup's main focus for over 10 years, with record sales all over the world and a process being constantly innovated, able to reinterpret and evolve the technology for more and more ambitious projects.

Another clear example of this kind of cutting edge product is PROTECT, the exclusive line of antibacterial floor and wall covering developed in collaboration with Microban®, a world leader in hygienic technologies. PROTECT surfaces guarantee extremely high performances thanks to an antibacterial shield incorporated in the ceramic product, eliminating up to 99.9% of bacteria from the surface. The results is a constantly protected surface, ensuring the highest hygienic performance, not alterable by use or weather condition.

It is important to also mention the prestigious research project concluded by Panariagroup in June 2016. The technicians in the Research Centre in the Italian business unit, in cooperation with a team of national partners made of private enterprises from several sectors and with qualified research bodies, have created the first prototype of a photovoltaic tile sized 30x30cm and with a thickness of 3mm, fully working and able to produce electricity, whose active state is constituted by a thin layer of amorphous silicon.



This project, called "Development and application of ceramic tiles with integrated photovoltaic cells (PV) for buildings with advanced coverings (BIPV - Building Integrated PhotoVoltaics)", has been conducted in the context of the "Energy Efficiency - Industry 2015" tender promoted by the Ministry for Economic Development. This program was set in order to face important economic and industrial issues such as the necessity of making available sustainable building materials in order to reduce the buildings' energy consumption and with it the use of fossil fuels and, as a consequence, the CO₂ emissions.







4.4CUSTOMER SATISFACTION

Customer satisfaction is parallel with our push towards innovation and sustainability. The company's innovation ability is based on a constant experimentation that, thanks to the development of new production system and cutting-edge technologies, allows Panariagroup to offer its customers a wide range of top quality products, leaders in their market thanks to their excellent technical performance and their design. The synergy between products, research and design allows to offer a range of products suitable to satisfy a huge number of needs, always without losing sight of sustainability and a better aesthetic coordination with architecture and furnishing.

One of Panariagroup's distinctive elements is the ability to face any commercial challenge not only with a wide range of brands, but also with infrastructures dedicated to serve in the best and more accurate way specific channels or areas. All of this allows to pursue one of Panariagroup's founding principles: maximum attention to customer care. We want to satisfy our customers with a solid and reliable organisation, but also with flexibility and ability to answer any need.

Vertical organisation that aim to completely cover markets and distribution are supported by

horizontal structures specifically dedicated to certain geographic areas or particularly strategic targets, such as great international projects, contracts and company buyers.

In particular, in the channel dedicated to Contract and Key Accounting, Panariagroup has a dedicated structure available with a commercial team and a project and service unit able to answer in an efficient and quality way to the needs of any architect in the world.

ONE OF PANARIAGROUP'S DISTINCTIVE ELEMENTS IS THE ABILITY TO FACE ANY COMMERCIAL CHALLENGE NOT ONLY WITH A WIDE RANGE OF BRANDS, BUT ALSO WITH INFRASTRUCTURES DEDICATED TO SERVE IN THE BEST AND MORE ACCURATE WAY SPECIFIC CHANNELS OR AREAS

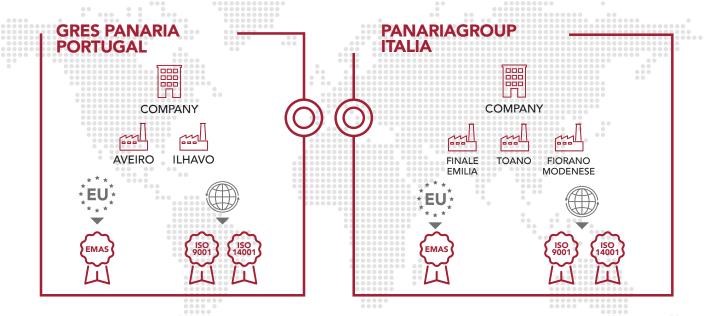


SYSTEM CERTIFICATIONS

Here are the system certifications achieved by Panariagroup in its plants. For what concerns quality control, the ISO 9001 certification is extended to

all commercial divisions and services. This also is evidence of the Group's commitment towards ethical, environmental, safety and quality issues.

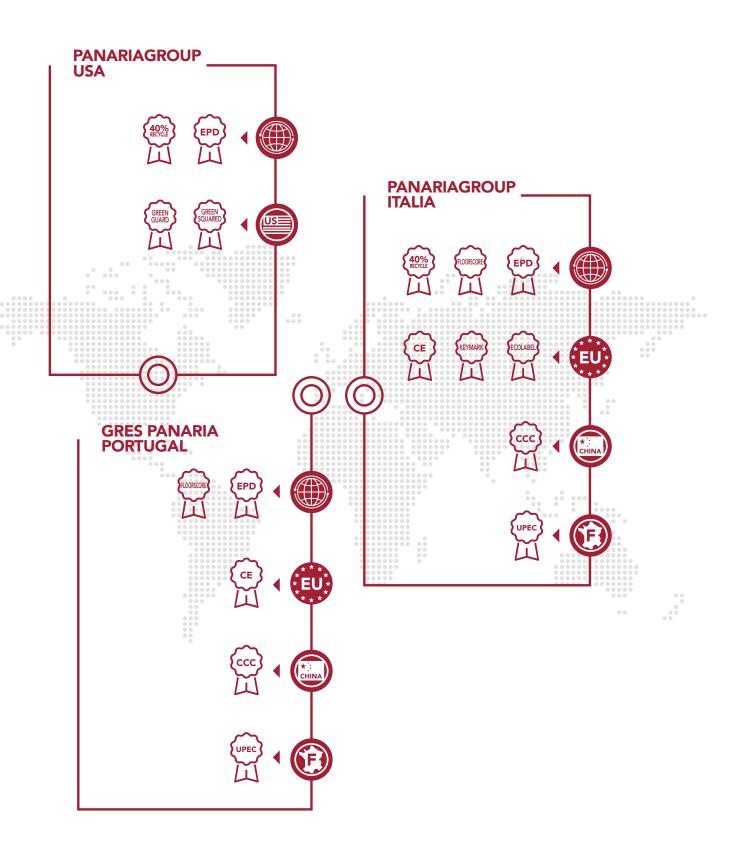
CERTIFICATION	DESCRIPTION	FIELD OF APPLICATION	PANARIAGROUP ITALIA	GRES PANARIA PORTUGAL
UNI EN ISO 9001-2008 CERTIOUALT SETEMA DI CESTIONE OUALTA CESTERATO	In accordance to the ISO 9001 certification, every passage in the production process, from the arrival of the raw material to the packaging of the finished product, is verified by experienced personnel through accurate quality control. The quality of the Panariagroup production sites is audited yearly by an external agency through detailed visits.	WORLDWIDE	FINALE EMILIA TOANO FIORANO MODENESE	AVEIRO ILHAVO
UNI EN ISO 14001:2004 CONTROLLATI SISTEMA DI CISTIONE AMBIENTALE CENTIFICATO	In accordance to the ISO 14001 certification, all the environmental aspects concerned in the production of our tiles are constantly monitored, guaranteeing the use of the best technologies on the market in order to reduce the environmental impact. The environmental system of the Panariagroup production sites is audited yearly by an external agency through detailed visits.	WORLDWIDE	FINALE EMILIA TOANO FIORANO MODENESE	AVEIRO ILHAVO
EMAS GESTOR MINISTORIA (a) 1-10EDS	The EU EMAS Eco-Management and Audit Scheme for organisations requires the creation of a complete system of environmental management based on constant improvement. The system is based on the establishment of a rapport of cooperation and trust with employees, local authorities and the public. An Environmental Declaration is the final product of such process.	EU	FINALE EMILIA TOANO FIORANO MODENESE	AVEIRO ILHAVO

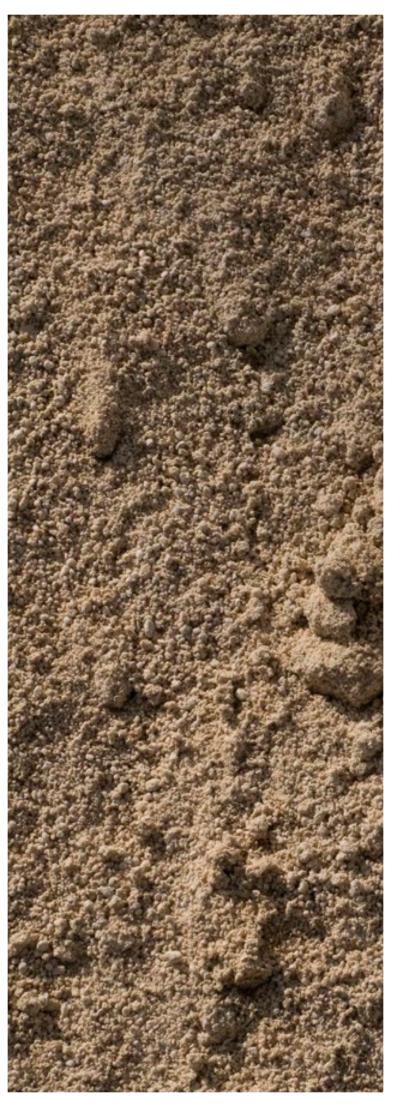


4.6 PRODUCT CERTIFICATIONS

Here are the certifications achieved by Panariagroup for the Group's products in Italy, Portugal and USA; this also is a testimony of the Group's commitment towards ethical, environmental, safety and quality issues.

CERTIFICATION	DESCRIPTION	FIELD OF APPLICATION	ITALY	PORTUGAL	USA
<u> </u>	UPEC is a product certification issued by the French institution CSTB, verifying the technical suitability of the products related to their intended use.	FRANCE	•	•	
C E 14411	The CE mark is a safety certification required by the European Union with the intention of safeguarding health and safety.	EU	•	•	
	The KEY-MARK and the Certiquality-UNI marks confirm that the certified products are compliant with the EU laws regarding ceramic tiles.	EU	•		
(W)	Since August 2005, it is allowed to export in the Peo- ple's Republic of China only ceramic tiles bearing the CCC marking, which Panariagroup obtained, on several products, since March 2006.	CHINA	•	•	
floor score	FloorScore® is a system certifying the low VOC emissions of floorings and of the products used in their installation. It is one of the best known certifications to determine the quality of the air inside a building.	WORLDWIDE	•	•	
EPD	The EPD declaration is a voluntary declaration that can be applied to all products. It is an important instrument to report on the environmental quality of a product.	WORLDWIDE	•	•	•
ECOIADE LCOIADE www.ecolabel.eu	Ecolabel is a system of environmental certifications created by the EU (#66/2010) offering all consumers to purchase eco-compatible goods. This label is a mark of excellence, as it is awarded after a strict analysis of the whole life-cycle of a product (LCA).	EU	•		
GENEVA GUERN	Panariagroup achieved the prestigious Greenguard certification, confirming the conformity of building, furnishing and finishing materials to strict air quality standards as defined by GEI (Greenguard Environmental Institute). Such products undergo strict third-party testing to verify their impact on indoor air pollution.	USA			•
Cartes Separate Carded by Al Environment	It is a TCNA initiative aimed to recognise and certify sustainable products according to the ANSI 138.1 law. Covered by this certification are the environmental characteristics of the product, its production chain, the extraction of raw materials, the management of end-of-life products and innovation.	USA			•
40% 3	For most of its products, Panariagroup achieved a certification related to the contents of recycled material pre-consumer. This character of eco-sustainability contributes to the achievement of credits required by several national building standards.	WORLDWIDE	•		•









5.1ENVIRONMENTAL RESPONSIBILITY

Always at the vanguard in ably joining beauty, quality and sustainability, **Panariagroup is** committed every day to reduce the environmental impact of its plants, proving its excellence in safeguarding the ecosystem and in researching the best housing comforts. A key, essential commitment for those who, like Panariagroup, create products that millions of people, all over the world, encounter daily, in their homes and in public.

Panariagroup considers the aspects related to environmental impact and to safety and hygiene on the job to be of fundamental importance. That is why the policy it has put in place for management includes the following activities:

- safeguarding the integrity of the environment that surrounds the manufacturing facilities as well as the environment within, thus protecting the environment as a whole;
- ensuring constant respect of the existing legal norms regarding safety and the environment through ongoing and rigorous inspections;
- managing, preserving and, where possible, reducing the use of natural resources;
- constantly improving its environmental approach, to keep the production of pollutants and the consumption of resources to a minimum;

 providing constant information to and maintaining an ongoing collaboration with the population and with public organizations regarding the environmental policies adopted, including the release of the EMAS Environmental Declaration.

Such principles are of paramount importance because they drive Panariagroup both on a management and strategic level and for what concerns operational decisions on specific plants, with the final aim to improve environmental performance on every level.



Aware that, in the sector of the production of ceramics for flooring and wall covering, environmental awareness is more and more a critical factor for success, the Group was able to display, year after year, a true green philosophy that comes through at every level.

Everything is thought and created with the highest respect for the environment, from the construction of the production plants, perfectly in harmony with the territory, to the careful control procedures on each and every phase of the creation of a product.

To prove the central role environmental sustainability has for the Group, every production plant in Europe, all highly automated and integrated, achieved the ISO 9001, ISO 14001 and EMAS environmental management certifications.

The EMAS declaration concerns environmental performances and targets for improvement, and it is published yearly on the company's official website. Additionally, for what concerns the plants in Italy, Panariagroup creates every year an AIA report, as requested by the Autorizzazione Integrata Ambientale (Integrated Environmental Authorisation), containing data related to environmental performances and a precise performance index.

The raw materials used in the Panariagroup plants are constantly monitored, in full respect of the environmental standards set by the law.

TILES PRODUCED

Equally, the production waste is mostly reused thus causing a diminution in the use of natural raw

materials. Every product then undergoes a strict, accurate quality control, and every collection is classified according to specific characteristics established by the law. The majority of them has all the requirements to obtain LEED credits and the prestigious ECOLABEL brand.

EVERYTHING IS

FOCUS ON PORTUGAL: SUSTAINABLE DEVELOPMENT POLICIES

Portugal was a forerunner of the Panariagroup sustainability practices, and acted as an innovation laboratory for what concerns the integration of sustainability principles in the Group's strategies. Love Tiles and Magres, the two Panariagroup Portuguese brands, applied a strategy of local,

sustainable development based on the same values that inspire the entire Group. In particular, aware of their social and environmental responsibilities, the two brands have committed to respect the strategic principles represented in the scheme below.

CUSTOMER SERVICE AND RELATIONS WITH OTHER STAKEHOLDERS

CUSTOMER AND STAKEHOLDER SATISFACTION THROUGH THE RESPECT OF SPECIFIC REQUIREMENTS

RELATIONS WITH SOCIETY

RESPECT OF LEGAL AND OTHER REQUIREMENTS LINKED TO THE PRODUCTS, THE SERVICES AND THE ACTIVITIES PERFORMED BY THE ORGANISATION

CONTINUOUS IMPROVEMENT

INNOVATION AND
DEVELOPMENT OF PRODUCTS
AND SERVICES TO SATISFY THE
CUSTOMERS' EXPECTATIONS

ENVIRONMENT PROTECTION

POLLUTION PREVENTION
THROUGH THE ABATEMENT
OF ENVIRONMENTAL IMPACT,
CONTROL AND ADOPTION
OF THE BEST AVAILABLE
TECHNOLOGIES WHEREVER
POSSIBLE AND ECONOMICALLY
AFFORDABLE

SOCIAL TARGETS

INVOLVEMENT AND MOTIVATION OF THE EMPLOYEES, A VITAL FACTOR IN THE COMPANY'S SUCCESS

HEALTH, SAFETY AND WELL-BEING

PREVENTION OF WORK-RELATED ACCIDENTS AND ILLNESS, TO CONTRIBUTE TO IMPROVE EMPLOYEES' QUALITY OF LIFE

5.2 MANAGEMENT OF NATURAL RESOURCES

Panariagroup chose to take a stand in defence of the planet. We did and do so every day with concrete actions, investing in the most advanced technologies and making choices following the logic of eco-sustainability. Because after all, despite being the result of a complex and advanced industrial process, ceramic tiles are natural products from a simple recipe: earth, fire and water. Thus we obtain a sturdy, versatile product, practical and hygienic, valuable for its beauty and its design. Even more so if the production chain has a responsible dialogue with the environment, diminishing its employment of raw material by recycling water and production waste and using high efficiency plants - and thus reducing the ecologic footprint that our industrial production leaves on the planet.

According to Panariagroup, a sustainaible management is expressed at its highest level in each and every production cycle, starting from considering quality as the result of constant research and respect for the environment amongst its main ingredients. Compliant for many years with the environmental and eco-sustainable rules, the Group has always believed in the possibility to join the improvement of the production process and the growing quality of the products with an attention towards enhancing the quality of life and reducing environmental impact.

Applying its environmental policies, the Group regularly sets a series of targets to achieve in order to improve even further its environmental

performance and to promote themes related to workplace safety and hygiene. For what concerns the processing plants in Italy and in Portugal, the details are included in the EMAS Environmental Declaration.

Finally, for what concerns biodiversity, one of the topics emerged from the materiality analysis, the activities of the various production plants do not have any relevant impact.







QUALITY AND NEVER ENDING IMPROVEMENTS ARE OUR GOALS. TO RESPECT THE **ENVIRONMENT** IS OUR FIRST COMMITMENT.

5.3 THE RAW MATERIALS

RAW MATERIALS

The main raw materials used in the production of ceramic tiles are:

CLAY SAND FELDSPAR COLOURED PIGMENTS GLAZE



Glazes are composed by the following materials:

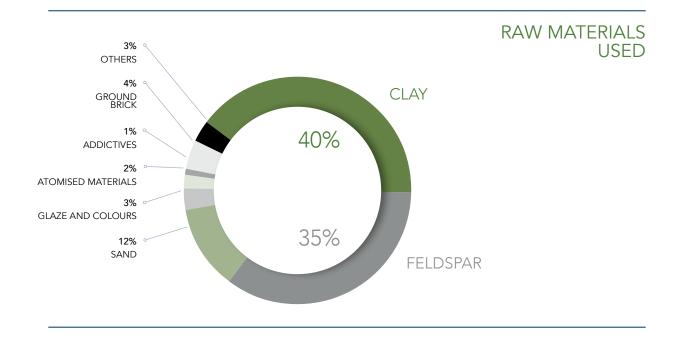
CLAY DUST QUARTZ ALUMINA NATURAL PIGMENTS FRIT AUXILIARY TO ADDITIVES

The main auxiliary additives are:

BINDING AGENTS FLUIDISING AGENTS

In the graph that follows are represented the main raw materials used by the Group.

From it, it is possible to notice how most of the purchased materials are clay and feldspar.



5.4 THE PRODUCTION PROCESS



The first phase of the production process is the delivery and the stocking of the raw materials, such as clay and feldspar mixed with sand, kaolin and silicates. **Such raw materials are mined, normally in open air mines.** The production of tiles begins, therefore, from the grinding of the raw materials that are delivered to the plant and are stocked in separate, easily identifiable boxes in covered areas.

The mixture at the basis of the production of stoneware is obtained by mixing such raw materials, and mostly contains a part of clay, that has a plasticisation role, an inert part (sand) with a structural and thinning function, to limit the expansion and diminution during the firing phase and a part of feldspar that will melt, thus allowing – again during the firing – the creation of a vitreous phase thus helping making it more compact.

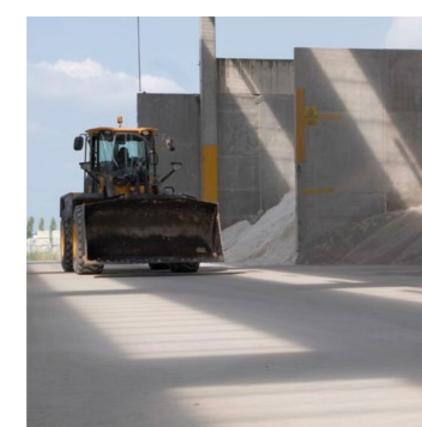
Before they are stocked, all raw materials undergo a series of checks in order to verify their characteristics comparing them with those agreed with the suppliers.

An interesting aspect for what concerns the environment is the recycling of raw and fired

waste during production. Raw waste may come from the phases of atomisation, pressing or glazing, while the fired ones may come from the selection phase or from the rectifying/lapping. In all the Group's plants, 100% of the raw waste is reinserted in the production process. In Italy and in the USA, also 100% of the fired waste is reintroduced in the ceramic mixture; the plants in Portugal are working towards the same target.

Finally, to focus on circular economy, at the end of their life, the **ceramic tiles can be fully recycled as basis for buildings or roads, or disposed of like any other inert material.** It is however important to point out how the Panariagroup products are characterised by a high resistance in time, so they may last as long as the building in which they are installed, for much longer periods than any other coverings.

PERCENTAGE
OF RAW WASTE
RECUPERATED DURING
THE PRODUCTION
PROCESS



5.5 ENERGY AND EMISSIONS

The Panariagroup plants use mostly electricity, methane gas and diesel fuel. The main consumption is of methane gas, mostly used during the production phase, summing up to over 80% of the total fuel consumption. In 2016, the Group used a total of 2,891,666 GJ, an increase compared to 2015, parallel to the increase in volume of material produced.

Panariagroup constantly invests in improving energy efficiency in its plants. Every year, the energy efficiency projects by companies that, like Panariagroup, invested in reducing the environmental impact of their activities, allow GSE (Energy Service Management) to award TEE (Titles of Energy Efficiency, also called White Certificates) in accordance to the Legislative Decree of July 20th, 2004, based on the energy consumption compared to the sector benchmarks.

Furthermore, since 2013, the Panariagroup plants in Italy and Portugal joined the "Emission Trading" system, regulating the exchange of quotas of CO₂ emitted during production, as per Directive 2009/29/CE. Thanks to the choice of machinery made in the last few years, allowing to achieve important results in the field of energy performance thus saving methane gas, all of the company's plants have been able to comply every year with the ETS requirements, returning to the authorities the CO₂ quotas without ever having the need to purchase extra quantities after those provided by the European Community. This very important result has been achieved thanks to a constant research for innovative solutions to increase energy efficiency, that Panariagroup has always carried on in all its production sites.

IN 2016 THANKS TO THE PHOTOVOLTAIC INSTALLATIONS IN FIORANO MODENESE AND FINALE EMILIA

ENERGY CONSUMPTION

BY THE GROUP FOR EVERY m² OF TILES PRODUCED **IN 2016**



TOTAL ENERGY USED BY THE GROUP In the Italian plants of Finale Emilia and Fiorano Modenese, two photovoltaic systems have been installed – respectively 450 KWp on a surface of 4,200 m² and 85 KWp on a surface of 1,000 m² – allowing to produce electricity destined to internal consumption, thus reducing the $\rm CO_2$ emissions. Thanks to those installations, the Group reduced the $\rm CO_2$ emissions by 192 tonnes in 2015 and by 183 tonnes in 2016.

One further element of excellence in the Italian production plants (Toano and Finale Emilia) is a

system that recovers the fumes of the kilns in the atomisation machines, allowing a reduction in the usage of thermal energy.

For what concerns energy consumption, it's important to notice how, compared with other materials (wooden floorboards, natural stone, cork flooring), stoneware requires less energy to produce, also thanks to modern machinery and to its extremely high durability.

LAMINATED PORCELAIN STONEWARE: AN INNOVATIVE AND SUSTAINABLE SOLUTION

THERMAL ENERGY
REQUIRED PER
m² PRODUCED*

-20%

ELECTRICITY
PER m² PRODUCED*

The emissions of greenhouse gas are an important environmental issue for Panariagroup; from the production process and from related activities derives the emission in the atmosphere of substances that require a purification treatment, in particular during the firing of the tiles.

As mentioned about the increase in energy consumption, the increase in the emission of greenhouse gas in 2016 when compared to 2015 is linked to an increase in production.

^{*} Data calculated comparing the electric and thermal energy required in the Fiorano Modenese plant, exclusively dedicated to the production of laminated porcelain stoneware, compared to the average of the Finale Emilia and Toano, which also are highly-performing, which are dedicated to stoneware.



138,031_{tco₂}

DIRECT AND INDIRECT EMISSIONS BY THE GROUP IN 2016

It is important to notice how the production of laminated stoneware, one of the products on which Panariagroup has focused more in the last few years, requires lower energy consumption and has a lower environmental impact.

When we compare emissions during the production of laminated stoneware with those created during the production of stoneware, we notice a relevant reduction in the CO₂ released.



^{**} Data obtained from the Panariagroup EMAS data and from the ICE and ECO-BAU databases for what concerns stoneware, including the energy consumption data necessary for the estraction of raw materials (source: EPD of products of equal thickness).





FOCUS ON THE USA: THE CARES INITIATIVE

The CARES (Creating a Responsible Environmental Strategy) initiative put in place numerous programs aimed to reduce the carbon footprint of our USA production plant. Amongst those is a constant reduction of the amount of waste produced. From partnerships with local and national non-profit organisations to recycling during the production process through the purchase of partially recycled raw materials, Florida Tile is focusing more and more on the use of renewable resources, earning several recognitions, locally and nationally.

With most of the manufacturing industry focused on sustainability, Florida Tile wished to find a way to differentiate and display its sustainable production process. The company obtained an external certification in order to satisfy the LEED requirements and other standards required for building materials. With the conclusion of the evaluation process, it was confirmed that all porcelain stoneware products created in the Lawrenceburg (Kentucky) plant contain no less than 40% of recycled material.

In this context, Green Squared is a new initiative proposed by the North American ceramics

industry aimed to recognise and certify sustainable products. Differently from other initiatives, Green Squared adopts a standard of sustainability that keeps in mind several aspects concerning materials used, production and installation of the tiles.

Considering both the individual characteristics of the product and a balanced approach to environmental and social impact, the standard evaluates the environmental characteristics of the product, extraction of raw materials, waste management, corporate governance and innovation. All Florida Tile products manufactured in Lawrenceburg carry a Green Squared certification.

ALL STONEWARE PRODUCTS CREATED IN THE LAWRENCEBURG (KENTUCKY) PLANT CONTAIN NO LESS THAN 40% OF RECYCLED MATERIAL



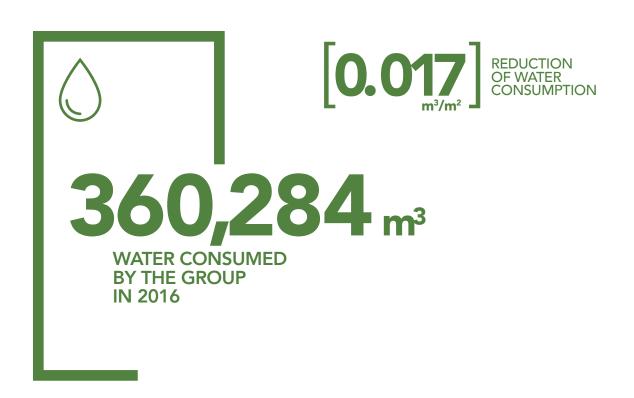


5.6 WATER

In the Panariagroup plants, the use of water during the production cycle is mostly concentrated in the phases of grinding of the raw materials, of preparation of the semi-finished product for glazing, in the washing of the machinery - in particular of mills and glazing lines - and finally during the operations of lapping, cutting and rectifying of the fired tiles. From the data in the attachment, it can be noticed how the quantity of water required by the production sites is increasing. Such increase is mainly due to an increase in production.

It is important to highlight how the Panariagroup production plants in Italy reutilise 100% of the water in the process. This allows us to reduce the consumption of natural water resources by up to **80%.** The Group's water consumption is in general much lower than the volume of water required in the production process. Most of the water is reutilised during the process, thanks to specific technologies.

PERCENTAGE OF **WATER REUTILISED IN** THE ITALIAN PLANTS



Specifically, the company uses depuration machines in order to have waste water undergo a chemical and physical depuration process. Once depurated, part of such water is normally used during the grinding of materials and glazes, while the rest is utilised to clean the glazing lines or the mills used to grind the glazes.

The water thus recovered creates a sort of "closed cycle", as they are reused within the same production process. The only water drained outside the production site is the water from the toilet facilities (in very low quantities), as those are to be equated with civilian waste and are therefore discharged in the public sewers.

It is important to highlight that the production of laminated stoneware tiles produced by the Group – a fruit of the Group's commitment to research and innovation – requires a much lower amount of water than the production of stoneware tiles.

WATER USED IN THE PRODUCTION OF LAMINATED STONEWARE COMPARED TO STONEWARE*



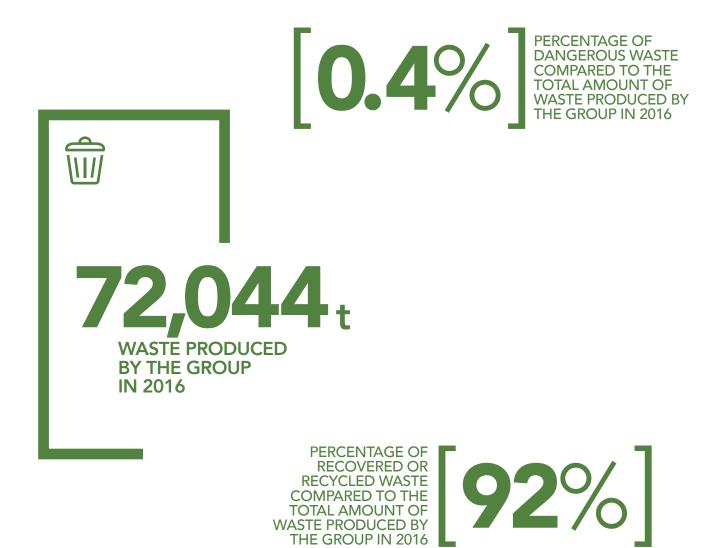
* Data obtained from the Panariagroup EMAS data and from the ICE and ECO-BAU databases for what concerns stoneware, including the energy consumption data necessary for the estraction of raw materials (source: EPD of products of equal thickness).

5.7 WASTE **MANAGEMENT**

The waste produced in the Panariagroups plants is assigned, for recovery or – in a minimal percentage - for landfill disposal, to external agencies authorised according to the current laws.

The management of the waste, during its temporary storing inside the plants, is made in dedicated areas created according to the current laws. The increase in the waste produced is due to the increase in production, and it mostly concerns sewage sludge.

Specific details concerning waste management are in the attachment. From the published data, it can be noticed how the waste destined to recovery or recycling is a very high percentage of the total, and only a small amount goes to landfill. It is also important to highlight that the production of dangerous waste is minimal when compared to the total amount of waste produced (0.4%).



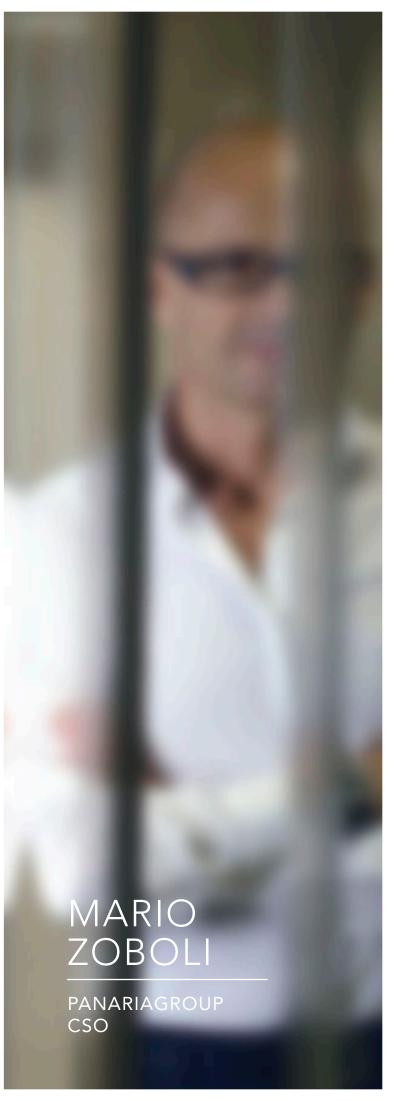






THE HUMAN RESOURCES OF THIS COMPANY MAKE ME PROUD TO RECOMMEND IT EVERY DAY.





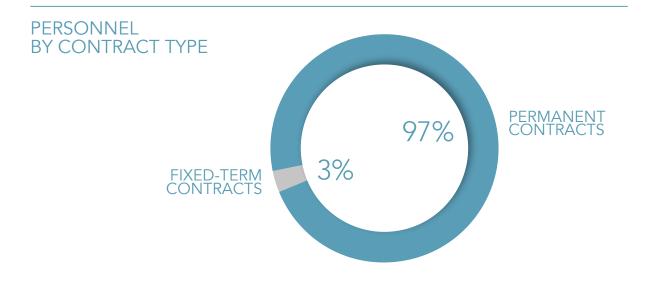
6.1 OUR PEOPLE

One of the founding values of Panariagroup is putting at the centre the person and his or her quality of life, operating in the maximum respect of those who work with the Group.

The people, their growth and their professional progression are the keys of our success. For this, we pay **particular attention to health and safety** (which emerged from the materiality analysis as one of the main interests both for the Groups and for the stakeholders) and our employees are rewarded as they deserve and their rights are always considered paramount.

In managing its employees, Panariagroup promotes a company culture able to attract the best talents, improving everyone's skills and teamwork abilities and recognising and rewarding performance, with the final aim to contribute to our employees' personal and professional satisfaction.

In applying such principles, the Group employs almost exclusively full-time personnel on permanent contracts, which guarantees the workers more stability and more opportunities to grow, both personally and professionally. The Group, however, always considers, whenever possible, requests of part-time employment by employees, in order to guarantee schedules adapting to the personal needs of the same.



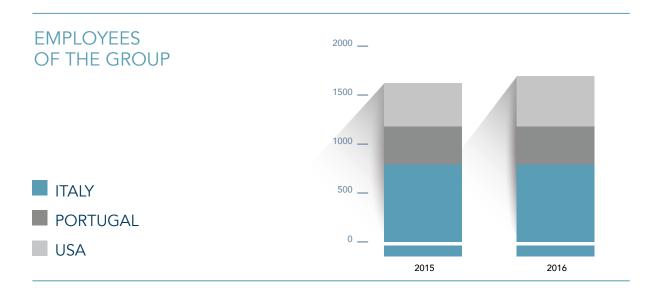
In a complex economic context, Panariagroup has decided to maintain a steady occupational level keeping a solid relation with the communities in which it operates, **avoiding the outsourcing of any production process.** A steady relationship with our

employees is a key element to responsibly sustain the Group's economic growth.

In 2016, the Group employed 1,666 people – 5% more than in the previous year.

1,666 EMPLOYEES

70% EMPLOYEES COVERED BY COLLECTIVE BARGAINING



With a growing workforce in the Group, in 2015 and 2016 the turnover was roughly constant in Italy, while the number of new employees has grown in the USA and in Portugal, in tune with the Group's growth policy.

For what concerns remuneration, the Group promotes the concept of a fair salary for all. In relation with the salaries of new hires, Panariagroup doesn't just simply respect the local laws, but guarantees a salary superior to the local minimum wage.

Panariagroup also adopts integrative collective contracts, which further protect the work-related side of its relationship with its employees. In particular, for almost all sites, since 2016 there is an additional company welfare plan that the employee can select between Complimentary Welfare, Integrative Health Assistance, Assistance for elderly or non-self-sufficient family members, Education/ Instruction or Shopping Bonuses.

One more relevant aspect for the Panariagroup employees is the percentage of those who

return to work after a parental leave, also in the attachment, which shows how the Group supports its employees in the most important moments of their lives, such as the birth of a son or of a daughter.

Panariagroup is committed to guarantee equal opportunities to employees and those who apply for a job.

Within the Group, we promote the full respect of every individual and of their religious, political and sexual orientation, fighting any kind of discrimination and promoting diversity, tolerance and a welcoming environment. We signal that in 2016 no significant episodes of discrimination were signalled.

It is important to highlight that the Group respects the employees' right to collective bargaining in observance to the conventions stipulated by the International Labour Organisation and in respect of local laws. Furthermore, in case of relevant organisational changes, the Group sticks to what established in the collective contracts for what concerns the matter of fair warning.

6.2EMPLOYEE HEALTH AND SAFETY

Panariagroup implemented an integrated system of Quality, Environment, Hygiene and Safety Management in order to **guarantee the protection** and the safety of its employees, one of the main theme emerged from the Materiality Analysis both from the Group and from the stakeholders.

Besides providing adequate **explanation of topics of Health and Safety, the Group constantly monitors the number of work injuries,** strongly operating on personnel awareness through training and internal education about work safety and providing thorough training to new hires ("buddying up" with experienced colleagues, adequate use of the tools provided for individual protection, distribution of documents on the topic). In 2016, there were no life-threatening incidents.

In the Italian plants, for what concerns the workplace risk assessment document created in observation of Legislative Decree 81/08, no situations at risk were highlighted. Risk assessment checks in the plants are run constantly, in order to be able to tackle promptly any safety or hygiene issues.

Health and safety are factors the Group keeps in mind when conceiving its products.

The design and development of any Panariagroup product is conducted by qualified lab technicians, according to guidelines established by a specific internal procedure that includes, whenever a new raw material is used, a request to the suppliers for a safety protocol including a list of all the toxicological characteristics of the material. All those details are controlled and verified before the material is received, and saved in the same laboratory for further uses.

The process for the creation of a new product is thoroughly examined to make sure that the activities linked to the various phases in the production cycle do not negatively impact the environment nor cause risks for the workers' health and safety. To prove the Group's attention to employee health and safety, every plant has a list of operational instructions, describing the correct way of performing the most dangerous operations with the machines.

In view of a constant improvement, amongst the Group's targets is **the integration of an organisational model for safety management.**



6.3 **TRAINING** AND DEVELOPMENT

Employee training has been mentioned as a key theme in the Materiality Analysis. Professional growth and development are vital for the Group, with the aim of adding value to the knowledge of the employees, but also in order to respect national laws and health and safety.

Education activities are not performed by the Group merely because of a legal obligation, being perceived as a need for the company. That's why the companies in the Group yearly analyse the employees' specific skills in order to give them adequate training. In addition to this, in Italy, the Group is committed to deliver educational activities required by the health and safety law 231/2001.

We want to highlight how, in Italy, a specific training on safety has been provided by external consultants, whose presence was registered following local legislation. The company also provided its employees with a wide range of training activities prepared by the Group's Managers and technicians.

To address the concrete needs of the employees with environmental responsibilities, training sessions and educational events are planned in order to help them improve their management abilities.

For what concerns the incentives, the integrative contracts applied in Italy include the awarding of variable rewards linked to the financial and economic results of the Group. In 2017, the Group will also set a reward system for Managers, linked to company and individual targets (MBO).

FOR THE EMPLOYEES WHO HAVE NVIRONMENTAL ESPONSIBILITIES JED IN ORDER MANAGEMENT



ALDO CATELLANI

PANARIAGROUP HR DIRECTOR





6.4RELATIONS WITH LOCAL COMMUNITIES

According to Panariagroup, sustainability also includes relations with the local communities. In our management strategies we consider policies concerning the economic and social impact of our presence. Our aim is to adopt sustainable behaviours at any level, towards the many situations Panariagroup operates within.

The procedures put in place towards the EMAS certification are a great chance to open a dialogue with the public and the stakeholders about environmental topics and the impact the presence of the Group may have.

The Group also actively contributes to the growth of local communities through participations, donations and by acting as a sponsor for the development and improvement of local life standards. The data concerning this is in the attachment. A relevant example is the donation of tiles to associations in the territory. Despite its positioning in the upper tier of the market and its strategy of high-end differentiation, Panariagroup is committed to sell discontinued or slightly imperfect products at a low price in order to allow its distribution on markets or communities with a lower purchasing power.

At the same time, Panariagroup is **active in involving employees and local communities in social and environmental activities.** In 2016, amongst the activities the Group promoted are World Water Day, World Environment Day, World Tree Day and an initiative to recycle used batteries.

Panariagroup has always been a relevant sponsor of sports teams. Its long-term contribution to cycling, with a long partnership with international professional teams, has been integrated by local operations, closer to the territory. Very meaningful are the activities performed by the Portuguese

business unit, that organises every year the Douro Gran Fondo, a high level competition where amateur cyclists from all over the world compete.

The Group is also a partner of the Maratona dles Dolomites-ENEL, an amateur cycling competition to which nearly 10,000 people take part every year. Panariagroup has also been, for a few years now, one of the main sponsors of Sassuolo Calcio, a team that reached the top tier of Italian football and played in the 2016/17 Europa League.



FOCUS ON ITALY: THE 2012 EARTHQUAKE

A reason of pride for the Group is the work done in 2012 during and after the earthquake that hit the Emilia region in 2012. In that occasion, Panariagroup contributed to the quick and effective requalification and rebuilding of the area, showing a strong social vocation and a commitment to actively participate in what happens where it operates on.

After the earthquake, local economy was, expectedly, very severely hit; the ceramics industry in Finale Emilia, like many other producers in various sectors – from engineering to the food industry, from textiles to manufacturing – faced serious consequences. The Panariagroup Finale Emilia plant was not excluded. Thankfully the warehouses resisted the tremors, but certain machines in the production cycle were seriously damaged, in particular the kilns, the silos in which the material is stored before it can be pressed and one of three atomisers. The office building was also severely damaged.

Despite the severity of the situation, which happened in an already critical phase in the economy, the Group didn't wait any time before jumping to action, firmly convinced of the need to maintain a presence in an area with which Panariagroup has always had a fruitful relationship. It is the place in which the company was founded, the one from which the company hired many of the high-quality employees that have been and are decisive for its success.

That's why Panariagroup decided to invest on a quick recovery, not only using financial resources but also dedicating to this project some of its best managers, who focused on this work of industrial and social rebirth. Already in the

morning of May 20th, only a few hours after the first and biggest tremors, the Panariagroup Board of Directors put everything in place to secure warehouses, machinery and offices in order to allow the production to restart as soon as possible. At the end of September 2012, the Panariagroup Finale Emilia plant went back to full productivity, and on December 13th a new office building was inaugurated.

A REASON OF PRIDE FOR THE GROUP IS THE WORK DONE DURING AND AFTER THE EARTHQUAKE THAT HIT THE EMILIA REGION IN 2012

6.5

RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

Many social and environmental risks can be identified along the supply chain. Panariagroup is conscious of the importance of selecting its suppliers with the maximum care and to increase the awareness of those it has been in a relationship for some time.

In particular, in Italy, the Group's suppliers are divided into two groups:

- **Primary Suppliers,** from which Panariagroup Industrie Ceramiche S.p.A. purchases the products or services that influence in a relevant way the quality of the finished product and of the production process, with a particular attention to the environmental aspects. In this category are the suppliers of raw materials for the mixture and the glaze, of completed products, of packaging (boxes, pallets and other) and of contract work.
- Other Suppliers, from which Panariagroup purchases products and services whose performances are reflected in a minimal way on the quality of the finished product or of the process.

In particular, the evaluation of the Primary Suppliers, then inserted in the List of Qualified Suppliers, considers the following indexes:

- Quality of the product offered;
- Level of attention towards environmental policies;
- Criteria about workplace health and safety;
- Price;
- Service provided;
- Results of a visit to the suppliers (when possible);
- Number of non-conformities registered;
- Post-sale assistance, focusing in particular on the answers given to complaints.

Equally important is the attention to the following aspects:

- Quality Management System certification in accordance to UNI EN ISO 9001;
- Environmental Management System certification in accordance to UNI EN ISO 14001;
- Adhesion to EMAS rules when available.

In Portugal, the suppliers of raw material are evaluated according to several indexes through questionnaires they are asked to fill in. The Group also monitors the management of the quarries from which the raw materials are extracted through audits performed by the Purchasing Department or by qualified technicians. During such audits the Group controls how the materials are extracted, keeping an eye on the environmental impact of this action, and the conduction of the relative lab analysis.

THE ENVIRONMENTAL, SOCIAL AND ECONOMIC RISKS THAT MAY INVOLVE THE SUPPLY CHAIN DESERVE A PARTICULAR ATTENTION

Worth a mention also is the process of selection of the suppliers as it happens in Portugal, with the specific target of avoiding any conflict of interest. Those who require materials aren't allowed to formalise an order with a specific supplier, but they must file a specific request. Only the Purchasing Department, after having received and compared three quotes from three different potential suppliers, can formally place the order. The administration can only proceed with payment when the whole process is concluded. Great investments are always authorised by the technical staff of the Group leader, in order to add one further control stage to the whole process. In the USA, the Group added to the supply contracts specific sustainability clauses linked to environmental and social aspects.

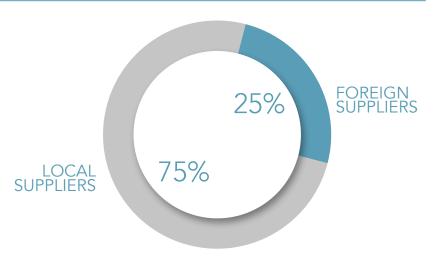
One of the targets the Group has for the next few years is **the introduction of a homogeneous system**

to evaluate new suppliers according to social and environmental criteria and to their respect of human and workers' rights.

Panariagroup recognises the importance of giving value to local economies. Because of this, the graph below reports the expenses on local

suppliers – that is, suppliers whose headquarters are in the same country in which the specific company within the Group operates. It's our target to measure such percentage keeping in mind the original provenience of the product, at least for what concerns raw materials.





The environmental, social and economic risks that may involve the supply chain are deserve a particular attention.

The production of ceramic tiles starts from the grinding of raw materials. This phase is subject to fluctuations in quantity and/or price due to issues with the extracting process or to international tensions (conflicts, variation in the cost of transportation due to changes in the value of oil, exchange rates and similar issues).

That's one of the reasons why the Panariagroup laboratories and technicians constantly research alternative materials. The composition of the mixture and the ways of transportation are for this reason based on a number of different channels (quarries in different geographic areas, several

procurement channels, use of different ways of transportation) in order to allow the employment of different solutions to face any possible issue.

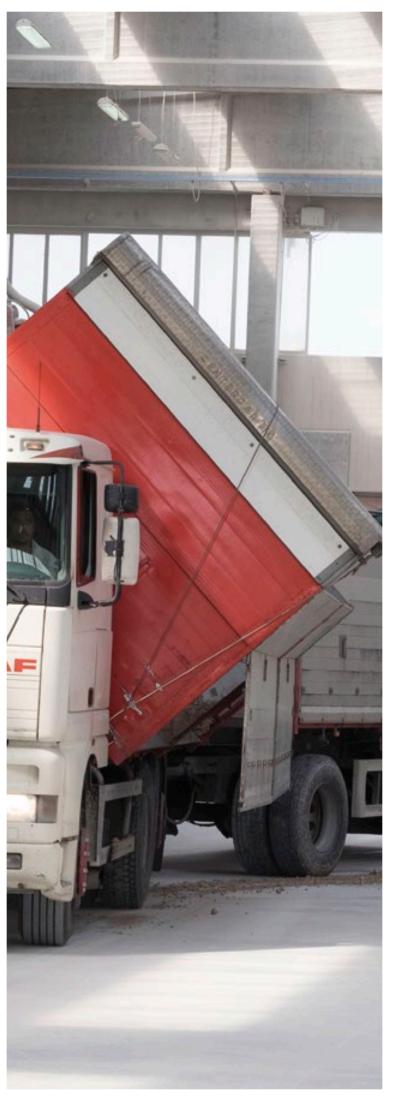
The provision of raw materials is also an important topic, with an especial focus on the way the suppliers extract the minerals in the quarries. From a social point of view, it is important to notice how none of the raw materials purchased by the Group are linked to conflict minerals. For a continuous improvement, Panariagroup commits to develop, in the next few years, a homogeneous system of measurement of the implications of both social and environmental risks.

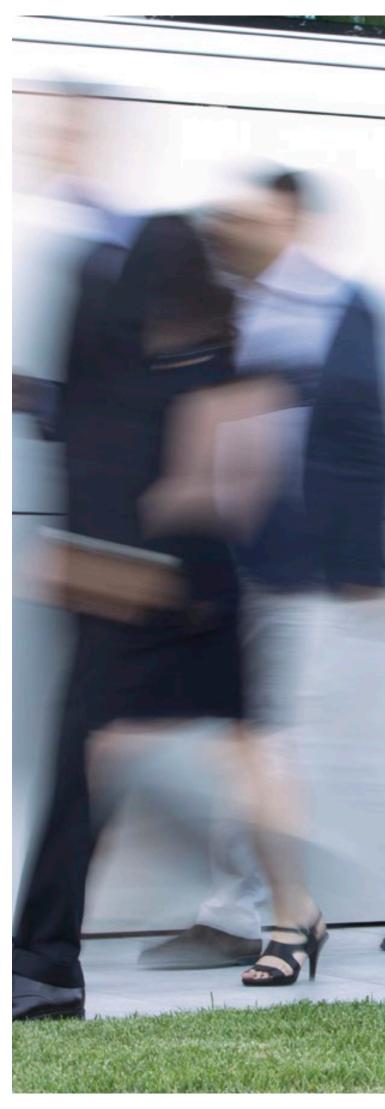
DAMIANO QUARTA

PANARIAGROUP CFO











7.1 ECONOMIC DATA

IT: ITALY; PT: PORTUGAL; US: USA

DISTRIBUTION OF GENERATED VALUE Data in €/000	2016
Value distributed to the suppliers	260,677
Employees remuneration	91,999
Remuneration of the providers of capital	2,543
Remuneration of the shareholders	3,144
Remuneration of public administration	5,308
Remuneration of the community	338
Value retained by the company	27,431
Generated economic value	391,440

INVESTMENTS

YEAR	IT (MLN€)	PT (MLN€)	US (MLN€)	TOTAL (MLN€)	% OF EARNINGS
2013	10.8	3.3	2.7	16.9	6.20%
2014	8.4	2.5	3.1	13.9	4.80%
2015	17.3	7.3	13.6	38.2	11.10%
2016	13.7	5.2	19.2	38.1	10.10%

INCOME STATEMENT Data in €/000	2016
Revenues from sales and services	377,045
Change in inventories of finished product	1,016
Other revenues	13,379
Value of production	391,440
Raw ancillary and consumable materials	(109,484)
Services, leases and rentals	(145,859)
Personnel costs	(91,999)
Changes in inventories of raw materials	(3,270)
Cost of production	(350,612)
Gross operating profit (EBITDA)	40,828
D&A expenses	(19,360)
Provisions and other impainments	(2,402)
Net operating profit	19,066
Financial income and expenses	(2,543)
Pre-tax profit	16,523
Income taxes	(5,308)
Net profit for the period	11,215

7.2 ENVIRONMENTAL DATA

IT: ITALY; PT: PORTUGAL; US: USA

ENERGY PRODUCTION

PRODUCTION OF ELECTRICITY FROM RENEWABLE SOURCES

	201	15				2016		
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Production of electricity (kWh)	536,083	-	-	536,083	510,829	-	-	510,829
Production of electricity (GJ)	1,930	-	-	1,930	1,839	-	-	1,839
CO ₂ emissions avoided (t)	192	=	=	192	183	=	-	183

ENERGY CONSUMPTION

TOTAL ENERGY CONSUMPTION

	2	015			2016	,)		
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Total energy consumption (GJ)	1,393,281	753,448	377,114	2,523,843	1,550,315	827,460	513,892	2,891,666
of which:								
From renewable sources (GJ)	1,930	-	-	1,930	1,839	-	-	1,839
From non-renewable sources (GJ)	1,391,351	753,448	377,113	2,521,913	1,548,476	827,460	513,892	2,889,827
Energy intensity (GJ/m²)*	0.14	0.12	0.11	0.13	0.14	0.13	0.14	0.14

NATURAL GAS CONSUMPTION

	2015						6	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Natural gas consumption (Smc)	32,505,356	17,441,566	8,373,593	58,320,515	36,336,364	19,242,202	12,089,538	67,668,104
Natural gas consumption (GJ)	1,138,328	610,798	293,241	2,042,367	1,272,489	673,856	423,372	2,369,717
CO ₂ emissions (t)	63,548	34,098	16,370	114,017	71,038	37,619	23,635	132,291

^{*} The data concerning energy intensity, emissions and water consumption is related to the m² produced in the year 2016. The data in the Group Profile chapter are the m² produced on a yearly basis, updated to the date in which the end-of-year balance was released.

Note: the environmental data only refer to the production plants, excluding therefore commercial offices and the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc.

ELECTRICITY CONSUMPTION

		20	015			2	2016	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Electricity consumption (kWh)	67,596,608	38,665,156	22,487,695	128,749,459	73,709,377	41,974,356	24,348,020	140,031,753
Electricity consumption (GJ)	243,348	139,195	80,956	463,498	265,354	151,108	87,653	504,114
CO ₂ emissions (t)	24,267	12,180	10,682	47,128	26,462	13,222	11,565	51,249

LPG CONSUMPTION

	2015				2016			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
LPG consumption (m³)	-	-	26	26	-	-	28	28
LPG consumption (GJ)	-	-	922	922	-	-	971	971
CO ₂ emissions (t)	-	-	60	60	=	-	64	64

CONSUMPTION FOR FREIGHT HAULING

		20	15		2016			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Diesel fuel (I)	268,628	95,939	49,210	413,777	295,242	69,296	46,288	410,826
Diesel fuel (GJ)	9,675	3,455	1,772	14,903	10,634	2,496	1,667	14,797
Petrol (I)	-	-	7,192	7,192	-	-	7,404	7,404
Petrol (GJ)	-	-	222	222	-	-	229	229
Diesel fuel CO ₂ emissions (t)	712	254	130	1,097	782	184	123	1,089
Petrol CO ₂ emissions (t)	-	-	16	16	-	-	17	17
Total CO ₂ emissions (t)	712	254	147	1,113	782	184	139	1,105

EMISSIONS

TOTAL CO₂ EMISSIONS

		20	15			20	016	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Direct emissions - Scope 1 (tCO ₂) Energy	64,260	34,353	16,578	115,190	71,820	37,802	23,838	133,460
Direct emissions - Scope 1 (tCO ₂) Materials	609	3,202	*	3,811	793	3,778	*	4,571
Direct emissions - Scope 1 (tCO ₂) Total	64,869	37,554	16,578	119,001	72,613	41,580	23,838	138,031
Indirect emissions - Scope 2 (tCO ₂)	24,267	12,180	10,682	47,128	26,462	13,222	11,565	51,249
Total emission intensity (tCO ₂ /m²)	0.009	0.008	0.008	0.008	0.008	0.009	0.010	0.009

Note: the environmental data only refer to the production plants, excluding therefore commercial offices and the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc.

^{*} Data not available

EMISSIONS COEFFICIENT	ELECTRICITY (gCO ₂ /kWh)	NATURAL GAS (tCO ₂ /Smc)	LPG (tCO ₂ /t)	DIESEL FUEL (tCO ₂ /t)	PETROL (tCO ₂ /t)
Italy	359				
Portugal	475	0.001955	3.024	3.155	3.140
USA	315				
Source	TERNA, Confronti Internazionali, 2014	Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017	Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017	Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017	Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017

In order to calculate the direct emissions, here are the emissions mentioned in the yearly

communication about greenhouse gas emissions as per directive 2003/87/CE.

LOWEST HEATING POWER OF COMBUSTIBLES PCI

0.035 GJ/Smc	
46.11 GJ/t	
42.877 GJ/t	
42.817 GJ/t	
	46.11 GJ/t 42.877 GJ/t

Source

Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017

WATER

WATER COLLECTED

		20	15		2016				
	IT	PT	US	TOTAL	IT	PT	US	TOTAL	
Total water consumption (m³)	171,271	131,869	DATA NOT AVAILABLE		179,933	147,755	32,596	360,284	
Intensity of water consumption (m³/m²)	0.0172	0.0217			0.0161	0.0230	0.0090	0.0169	

WASTE WATER DISPOSAL

		20	15		2016				
	IT	PT	US	TOTAL	IT	PT	US	TOTAL	
Total waste water (m³)	-	36,683	DATA N	NOT AVAILABLE	-	41,354	20,390	61,744	

WASTE

WASTE BY TREATMENT

WASTE BITTLEATIV	/ILIVI								
	20	015		2016					
	IT	PT	US	TOTAL	IT	PT	US	TOTAL	
Recovered/recycled (t)	42,549	15,162			49,803	16,105	193	66,100	
of which dangerous	78	7			148	11	-	159	
Disposal (t)	2,512	50	DATA	NOT AVAILABLE	3,310	53	2,581	5,944	
of which dangerous	94	13		_	109	-	-	109	
Percentage of dangerous waste	0.4%	0.1%			0.5%	0.1%	0.0%	0.4%	

Note: the environmental data only refer to the production plants, excluding therefore commercial offices and the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc.

7.3DATA ON HUMAN RESOURCES

IT: ITALY; PT: PORTUGAL; US: USA

EMPLOYEES

EMPLOYEES BY NATION, GENDER AND CONTRACT TYPE (AT DECEMBER 31ST)

		2015			2016	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Italy	510	279	789	507	278	785
Permanent	508	279	787	501	275	776
Fixed term	2	-	2	6	3	9
Portugal	263	115	378	278	114	392
Permanent	253	112	365	248	107	355
Fixed term	10	3	13	30	7	37
USA	296	117	413	348	141	489
Permanent	296	117	413	348	141	489
Fixed term	-	-	-	-	-	-
Total	1,069	511	1,580	1,133	533	1,666
Permanent	1,057	508	1,565	1,097	523	1,620
Fixed term	12	3	15	36	10	46

PART-TIME EMPLOYEES BY GENDER AS OF DECEMBER 31ST

		2015		2016				
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL		
Total	1,069	511	1,580	1,133	533	1,666		
Full time	1,065	470	1,535	1,127	488	1,615		
Part time	4	41	45	6	45	51		

EMPLOYEES BY CONTRACT LEVEL AND GENDER AS OF DECEMBER 31ST

		2015		2016					
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL			
Total	1,069	511	1,580	1,133	533	1,666			
Management	52	4	56	52	3	55			
Supervisors	77	25	102	78	22	100			
White collars	238	221	459	247	234	481			
Blue collars	702	261	963	756	274	1,030			

Note: the H.R. data excludes the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc., which in total employ less than 20 people.

EMPLOYEES BY CONTRACT LEVEL AND AGE AS OF DECEMBER 31ST

		2015			2016					
	<30	30-50	>50	TOTAL	<30	30-50	>50	TOTAL		
Total	105	1,004	481	1,580	128	1,023	515	1,666		
Management	-	40	16	56	-	33	22	55		
Supervisors	1	61	40	102	-	64	36	100		
White collars	38	278	143	459	45	331	105	481		
Blue collars	56	625	282	963	83	595	352	1,030		

PROTECTED CATEGORIES EMPLOYEES BY CONTRACT LEVEL AS OF DECEMBER 31ST

		2015		2016				
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL		
Total	37	10	47	73	22	95		
Management	-	-	-	-	-	-		
Supervisors	2	1	3	3	-	3		
White collars	8	8	16	13	10	23		
Blue collars	46	12	58	57	12	69		

COLLECTIVE BARGAINING

EMPLOYEES COVERED BY COLLECTIVE BARGAINING

		201	5		2016				
	IT	PT	US	TOTAL	IT	PT	US	TOTAL	
Employees covered by collective bargaining	789	379	-	1,168	785	389	-	1,174	
Percentage	100%	100%	0%	74%	100%	99%	0%	70%	

TRAINING

TRAINING BY CONTRACT LEVEL IN 2016 (in hours)

	IT*												US
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	-	
	n.	Average per person	ı n.	Average per person	n.	Average per person	n.	Average per person	n.	Average per person	n.	Average per person	
Management	16	0.4	0	0.0	16	0.4	358	32.5	489	163.0	847	60.5	DATA NOT
Supervisors	28	0.9	0	0.0	28	0.8	240	40.0	348	69.6	588	53.5	AVAILABLE
White collars	64	0.5	0	0.0	64	0.3	1,611	44.8	1,705	42.6	3,316	43.6	
Blue collars	864	2.7	68	0.4	932	1.9	2,117	9.4	150	2.3	2,267	7.8	
Total	972	1.9	68	0.2	1,040	1.3	4,326	15.6	2,692	23.6	7,018	17.9	

^{*} The data about training in Italy refer only to specific health and safety training delivered by external consultants, whose presence was registered following local legislation.

Note: the H.R. data excludes the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc., which in total employ less than 20 people.

OCCUPATIONAL DISEASE AND ABSENTEEISM

OCCUPATIONAL DISEASE AND ABSENTEEISM 2015

		IT			PT		US		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN WOMEN	TOTAL	
Absence (days)	8,620	8,346	16,966	1,519	1,688	3,206			
Professional illness (days)	2	1	3	1	1	2			
Possible working hours	994,068	508,557	1,502,625	547,029	239,195	786,225			
Hours worked	818,607	374,529	1,193,136	487,370	195,761	683,131			
Possible working days	124,258	63,570	187,828	68,379	29,899	98,278	DATA NOT AVAILAI	BLE	
Occupational disease rate** (*100,000)	0.2	0.3	0.3	0.2	1.0	0.3			
Absentee rate*** (*100,000)	69.37	131.29	90.33	22.21	56.44	32.63			

OCCUPATIONAL DISEASE AND ABSENTEEISM 2016

	IT				PT			US*			TOTAL		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
Absence (days)	7,062	6,968	14,030	1,594	1,935	3,529	1,146	21	1,167	9,802	8,924	18,726	
Professional illness (days)	2	1	3	2	-	2	N/A	N/A	N/A	N/A	N/A	N/A	
Possible working hours	994,985	512,330	1,507,315	578,229	237,115	815,344	791,648	324,896	1,116,544	2,364,862	1,074,341	3,439,203	
Hours worked	852,315	395,354	1,247,669	512,701	197,787	710,488	698,578	285,335	983,913	2,063,594	878,476	2,942,070	
Possible working days	124,373	64,041	188,414	72,279	29,639	101,918	89,990	36,920	126,910	286,642	130,600	417,242	
Occupational disease rate** (*100,000)	0.2	0.3	0.2	0.4	0.0	0.3	N/A	N/A	N/A	N/A	N/A	N/A	
Absentee rate*** (*100,000)	56.78	108.81	74.46	22.05	65.27	34.62	12.73	0.57	9.20	34.20	68.33	44.88	

Note: the H.R. data excludes the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc., which in total employ less than 20 people.

^{*} The data concerning absences in the USA includes only absence for work-related injuries and professional illness, including eventual non-working day in the period of absence.

** Professional illnesses every 100,000 worked hours.

*** Number of absence every 1,000 worked hours.

INJURY RATE AND GRAVITY INDEX

INJURY RATE AND GRAVITY INDEX 2015

		IT			PT		US	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN WOMEN	TOTAL
Injuries	34	18	52	19	8	27		
of which ongoing	-	1	1	-	-	-		
of which, on the workplace	34	17	51	19	8	27		
Deadly injuries	-	-	-	-	-	-		
Working days lost	851	332	1,183	414	176	590		
Workable hours	994,068	508,557	1,502,625	547,029	239,195	786,225	DATA NOT AVAILA	BLE
Worked hours	818,607	374,529	1,193,136	487,370	195,761	683,131		
Possible working days	124,258	63,570	187,828	5,502	2,415	7,917		
Lost day rate* (*100,000)	85.6	65.3	78.7	75.7	73.6	75.0		
Injury rate** (*100,000)	4.2	4.8	4.4	3.9	4.1	4.0		

INJURY RATE AND GRAVITY INDEX 2016

		IT			PT			US			TOTAL	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Injuries	33	21	54	19	11	30	10	3	13	62	35	97
of which ongoing	-	-	-	-	-	-	-	-	-	-	-	-
of which, on the workplace	33	21	54	19	11	30	10	3	13	62	35	97
Deadly injuries	-	-	-	-	-		-	-		-	-	-
Working days lost	836	450	1,286	466	347	813	874	20	894	2,176	817	2,993
Workable hours	994,985	512,330	1,507,315	578,229	237,115	815,344	791,648	324,896	1,116,544	2,364,862	1,074,341	3,439,203
Worked hours	852,315	395,354	1,247,669	512,701	197,787	710,488	698,578	285,335	983,913	2,063,594	878,476	2,942,070
Possible working days	124,373	64,041	188,414	5,500	2,280	7,780	89,990	36,920	126,910	219,863	103,241	323,104
Lost day rate* (*100,000)	84.0	87.8	85.3	80.6	146.3	99.7	110.4	6.2	80.1	92.0	76.0	87.0
Injury rate** (*100,000)	3.9	5.3	4.3	3.7	5.6	4.2	1.4	1.1	1.3	3.0	4.0	3.3

Note: the H.R. data excludes the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc., which in total employ less than 20 people.

^{*} Working days lost every 100,000 workable hours. ** Number of injuries every 100,000 hours worked.

PARENTAL LEAVE

PARENTAL LEAVE 2015

		IT			PT			US		TO	OTAL	
	MEN	WOMEN	TOTAL	MEN \	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN V	WOMEN	TOTAL
Total number of parental leaves during the year	-	7	7	2	8	10	5	4	9	7	19	26
Of which: total number of employees who returned to work after their parental leave	-	4	4	2	6	8	5	4	9	7	14	21
Of which: number of employees still on parental leave on the date of the report	-	3	3	-	2	2	-	-		-	5	5
Back-to-work rate	-	57%	57%	100%	75%	80%	100%	100%	100%	100%	74%	81%

PARENTAL LEAVE 2016

		IT			PT		U	S		Т	OTAL	
	MEN	WOMEN	TOTAL	MEN \	WOMEN	TOTAL	MEN WO	MEN	TOTAL	MEN	WOMEN	TOTAL
Total number of parental leaves during the year	1	12	13	13	4	17	2	-	2	16	16	32
Of which: total number of employees who returned to work after their parental leave	1	7	8	10	3	13	2	-	2	13	10	23
Of which: number of employees still on parental leave on the date of the report	-	5	5	3	1	4	-	-	-	3	6	9
Back-to-work rate	100%	58%	62%	77%	75%	76%	100%	-	100%	81%	63%	72%

LOCALLY HIRED MANAGEMENT

LOCALLY HIRED MANAGEMENT 2015

		IT			PT		US			TOTAL		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN W	OMEN	TOTAL	MEN	WOMEN	TOTAL
Managers	36	1	37	11	3	14	5	-	5	52	4	56
of which hired locally	36	1	37	11	3	14	3	-	3	50	4	54
Percentage	100%	100%	100%	100%	100%	100%	60%	-	60%	96%	100%	96%

LOCALLY HIRED MANAGEMENT 2016

	IT			PT		US			TOTAL			
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN WO	OMEN	TOTAL	MEN	WOMEN	TOTAL
Managers	36	-	36	11	3	14	5	-	5	52	3	55
of which hired locally	36	-	36	11	3	14	3	-	3	50	3	53
Percentage	100%	-	100%	100%	100%	100%	60%	-	60%	96%	100%	96%

Note: the H.R. data excludes the companies Montanari Ceramiche s.r.l., Lea North America LLC and Panariagroup US Inc., which in total employ less than 20 people.

7.4 DATA ABOUT THE SUPPLY CHAIN

IT: ITALY; PT: PORTUGAL; US: USA

LOCAL SUPPLIERS 2015 (millions of Euro)

	IT	PT	US	TOTAL
Expense for local suppliers	115	27	5	147
Total purchased	124	51	31	206
Percentage	93%	53%	16%	71%

LOCAL SUPPLIERS 2016 (millions of Euro)

	IT	PT	US	TOTAL
Expense for local suppliers	116	31	6	154
Total purchased	126	54	26	206
Percentage	92%	58%	24%	75%

MATERIALS PURCHASES (tonnes)

		2015				2016		
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Clay	105,551	72,838	32,352	210,741	123,394	80,728	33,203	237,325
Feldspar	100,970	55,824	36,419	193,213	110,748	60,629	37,697	209,074
Sand	40,218	9,870	10,595	60,683	49,836	10,818	10,994	71,649
Glaze and colourings*	7,634	4,479	2,760	14,873	8,357	4,773	2,794	15,924
Atomised	13,437	-	-	13,437	11,220	-	-	11,220
Zirconium/whi- tening agents	448	-	-	448	484	-	-	484
Additives	2,252	800	-	3,052	2,404	930	-	3,334
Ground fired material	15,254	1,989	2,694	19,937	16,624	2,689	2,759	22,072
Others	4,438	6,468	7,896	18,802	5,193	7,481	6,389	19,063
Total	290,202	152,267	92,716	535,185	328,260	168,049	93,836	590,145

Note: the data related to the USA is taking into account only some categories of goods and services.

^{*} The data related to the purchase of glaze and colouring is estimated at the light of the relation between kilograms of glaze and colouring purchased and m² produced during the first semester of 2017.





8.0GRI STANDARDS CONTENT INDEX

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102-6	Markets served	The Group's profile Panariagroup in the world	28-29 34-37
102-7	Scale of the organization	The Group's profile Panariagroup in the world Our people The Group's economic responsibility	28-29 34-37 88-89 46-51
102-8	Information on employees and other workers	Our people Data on Human Resources	88-89 106-110
102-9	Supply chain	Responsible management of the supply chain	96-97
102-10	Significant changes to the organization and its supply chain	No changes to report from 2015	-
02-11	Precautionary Principle or approach	Integrity and conformity	42-43
02-12	External initiatives	Integrity and conformity	42-43
02-13	Membership of associations	The Group's stakeholders and the relationship channels	14-15
Strategy			
02-14	Statement from senior decision-maker	Letter to the stakeholders	4-5
102-15	Key impacts, risks, and opportunities	Our approach to sustainability	13
Ethics and	d integrity		
102-16	Values, principles, standards, and norms of behavior	The Group's strategic targets The values of the Group	24-25 38

Governa	nce		
102-18	Governance structure	Management structure and governance	39-41
102-19	Delegating authority	Management structure and governance	39-41
102-20	Executive-level responsibility for economic, environmental, and social topics	Management structure and governance	39-41
102-22	Composition of the highest governance body and its committees	Management structure and governance	39-41
102-23	Chair of the highest governance body	Management structure and governance	39-41
102-26	Role of highest governance body in setting purpose, values, and strategy	Management structure and governance	39-41
102-28	Evaluating the highest governance body's performance	See "Relation on remuneration" on www.panariagroup.it/it/documenti-societari	-
102-29	Identifying and managing economic, environmental, and social impacts	Materiality analysis	16-19
102-32	Highest governance body's role in sustainability reporting	Materiality analysis	16-19
102-35	Remuneration policies	See "Relation on remuneration" on www.panariagroup.it/it/documenti-societari	-
102-36	Process for determining remuneration	See "Relation on remuneration" on www.panariagroup.it/it/documenti-societari	-
Stakeholo	er Engagement		
102-40	List of stakeholder groups	The Group's stakeholders and the relationship channels	14-15
102-41	Collective bargaining agreements	Our people	88-89
102-42	Identifying and selecting stakeholders	Materiality analysis	16-19
102-43	Approach to stakeholder engagement	Materiality analysis	16-19
102-44	Key topics and concerns raised	Materiality analysis	16-19
Reporting	practices		
102-45	Entities included in the consolidated financial statements	Panariagroup in the world	34-37
102-46	Defining report content and topic Boundaries	Materiality analysis	16-19
102-47	List of material topics	Materiality analysis	16-19
102-48	Restatements of information	The sustainability report	12
102-49	Changes in reporting	The sustainability report	12
102-50	Reporting period	The sustainability report	12
102-51	Date of most recent report	The sustainability report	12
102-52	Reporting cycle	The sustainability report	12
102-53	Contact point for questions regarding the report	The sustainability report	12
102-54	Claims of reporting in accordance with the GRI Standards	The sustainability report	12
102-55	GRI content index	GRI Standards Content Index	114-121
102-56	External assurance	The report on sustainability wasn't externally reviewed	-

SPECIFIC STANDARD DISCLOSURES ECONOMIC

ECONOM			
Economic	performance Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	The Group's economic responsibility	46-51
103-3	Evaluation of the management approach	_	
Economic	performance		
201-1	Direct economic value generated and distributed	The Group's economic responsibility	46-51
201-3	Defined benefit plan obligations and other retirement plans	Our people	88-89
Presence of	on the market I Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Our people Relations with local communities	88-89 94
103-3	Evaluation of the management approach	= Nelations with local communities	74
Market pre	esence		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Our people	88-89
202-2	Proportion of senior management hired from the local community	Relations with local communities	94
Indirect ed	onomic impact Management approach		
103-1	Explanation of the material topic and its Boundary	_	
103-2	The management approach and its components	Relations with local communities Focus on Italy: the 2012 Earthquake	94 95
103-3	Evaluation of the management approach		
Indirect ec	onomic impact		
203-1	Infrastructure investments and services supported	Relations with local communities Focus on Italy: the 2012 Earthquake	94 95
Procureme	ent practices Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Data about the supply chain	111
103-3	Evaluation of the management approach	_	
Procureme	ent practices		
204-1	Proportion of spending on local suppliers	Data about the supply chain	111
Anti-corru	otion Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Integrity and conformity	42-43
103-3	Evaluation of the management approach	_	
Anti-corru	otion		
205-2	Communication and training about anti-corruption policies and procedures	Integrity and conformity Training and development	42-43 91
205-3	Confirmed incidents of corruption and actions taken	Integrity and conformity	42-43

Anti-com	petitive behaviour l Management approach		
103-1	Explanation of the material topic and its Boundary	_	
103-2	The management approach and its components	Integrity and conformity	42-43
103-3	Evaluation of the management approach		
Anti-com	petitive behaviour		
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Note: there have been no legal action against anti-competitive behaviour, anti-trust and monopoly practices this year	- -

ENVIRONMENTAL

Materials	l Management approach		
103-1	Explanation of the material topic and its Boundary	Environmental responsibility	66-83
103-2	The management approach and its components	Raw materials	72
103-3	Evaluation of the management approach	The production process	73-74
Materials			
301-1	Materials used by weight or volume	Raw materials The production process	72 73-74
301-2	Recycled input materials used	Raw materials The production process	72 73-74
Energy N	Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Environmental responsibility Energy and emissions	66-83 75-77
103-3	Evaluation of the management approach		
Energy			
302-1	Energy consumption within the organization	Energy and emissions Environmental data	75-77 103-105
302-2	Energy consumption outside of the organization	Energy and emissions Environmental data	75-77 103-105
302-3	Energy intensity	Energy and emissions Environmental data	75-77 103-105
Water M	anagement approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Environmental responsibility Water	66-83 81-82
103-3	Evaluation of the management approach		
Water			
303-1	Water withdrawal by source	Water Environmental data	81-82 103-105
303-3	Water recycled and reused	Water Environmental data	81-82 103-105

Biodiversity 1	Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Management of natural resources	69
103-3	Evaluation of the management approach		
Biodiversity			
304-2	Significant impacts of activities, products, and services on biodiversity	Management of natural resources	69
Emissions Ma	anagement approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Energy and emissions	75-77
103-3	Evaluation of the management approach	•	
Emissions			
305-1	Direct (Scope 1) GHG emissions	Energy and emissions Environmental data	75-77 103-105
305-2	Energy indirect (Scope 2) GHG emissions	The Group's strategic targets HG emissions Energy and emissions Environmental data	
305-4	GHG emissions intensity	Energy and emissions Environmental data	75-77 103-105
Effluent and v	waste l Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Water - Waste management	81-82 83
103-3	Evaluation of the management approach	Trusto managoment	
Effluent and v	waste		
306-1	Water discharge by quality and destination	Water Environmental data	81-82 103-105
306-2	Waste by type and disposal method	Waste management Environmental data	
306-3	Significant spills	Note: there have been no meaningful spills in the Panariagroup plants in 2016	-
Environmenta	Il compliance I Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Management of natural resources	69
103-3	Evaluation of the management approach		
Environmenta	Il compliance		
307-1	Non-compliance with environmental laws and regulations	Note: there have been no fines or penalties for the violation of environmental laws and regulations	-
Supplier envir	onmental assessment l Management approach		
103-1	Explanation of the material topic and its Boundary	The Group's strategic targets	24-25
103-2	The management approach and its components	- The Group's strategic targets Responsible management of the supply	24-25 96-97
103-3	Evaluation of the management approach	chain	
Supplier envir	onmental assessment		
308-2	Negative environmental impacts in the supply chain and actions taken	Raw materials The production process Responsible management of the supply chain	72 73-74 96-97

SOCIAL

000,712			
Employme	ent Management approach		
103-1	Explanation of the material topic and its Boundary	_	
103-2	The management approach and its components	The Group's strategic targets Our people	24-25 88-89
103-3	Evaluation of the management approach		
Employme	ent		
401-3	Parental leave	Our people Data on Human Resources Note: the retention rate will be computed from next year	88-89 106-110
Labor/ma	nagement relations Management approach		
103-1	Explanation of the material aspects and their perimeter		
103-2	General information on managerial approach and its characteristics	– Our people	88-89
103-3	Evaluation of managerial approach	_ ` `	
Labor/mai	nagement relations		
402-1	Minimal notice period for operational changes	Our people	88-89
Occupatio	nal health and safety Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Employee health and safety	90
103-3	Evaluation of the management approach	_ The Group's strategic targets	24-25
	nal health and safety		
403-2	Types of injury and rates of injury, occupational diseases, lost	Employee health and safety	90
Training as as	days, and absenteeism, and number of work-related fatalities	Data on human resources	106-110
	nd education Management approach		
103-1	Explanation of the material topic and its Boundary The management approach and its components	The Group's strategic targets	24-25 91
103-2	The management approach and its components Evaluation of the management approach	_ Training and development	
404-1	nd education Average hours of training per year per employee	Training and development Data on Human Resources	91 106-110
Diversity a	nd equal opportunities Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	– Our people	88-89
103-3	Evaluation of the management approach		
Diversity at	nd equal opportunities	0	00.00
405-1	Diversity of governance bodies and employees	Our people Management structure and governance Data on Human Resources	88-89 39-41 106-110
Non-discri	mination Management approach		
103-1	Explanation of the material topic and its Boundary	The Country of the Co	24.25
103-2	The management approach and its components	 The Group's strategic targets Integrity and conformity 	24-25 42-43
103-3	Evaluation of the management approach	Our people	88-89
Non-discri			
406-1	Incidents of discrimination and corrective actions taken	Our people	88-89
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Freedom of a	ssociation and collective bargaining Management appr	oach	
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	The Group's strategic targets Our people	24-25 88-89
103-3	Evaluation of the management approach	ой реоріе	
Freedom of a	ssociation and collective bargaining		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	The Group's strategic targets	24-25
Child labour l	Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	The Group's strategic targets Integrity and conformity	24-25 42-43
103-3	Evaluation of the management approach	integrity and comorning	
Child labour			
408-1	Operations and suppliers at significant risk for incidents of child labor	The Group's strategic targets	24-25
Forced or cor	npulsory labour l Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	The Group's strategic targets	24-25 42-43
103-3	Evaluation of the management approach	Integrity and conformity	
Forced or cor	npulsory labour		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	The Group's strategic targets	24-25
Human rights	assessment Management approach		
103-1	Explanation of the material topic and its Boundary	T. 0. 4	04.05
103-2	The management approach and its components	The Group's strategic targets Responsible management of the supply	24-25 96-97
103-3	Evaluation of the management approach	chain	
Human rights	assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	The Group's strategic targets	24-25
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	The Group's strategic targets Responsible management of the supply chain	24-25 96-97
Local commu	nities Management approach		
103-1	Explanation of the material topic and its Boundary		
103-2	The management approach and its components	Relations with local communities	94
103-3	Evaluation of the management approach	· 	
Local commu	nities		
413-1	Operations with local community engagement, impact assessments, and development programs	Relations with local communities	94

Supplier socia	ll assessment i Management approach					
103-1	Explanation of the material topic and its Boundary	- The Group's strategic targets	24-25 96-97			
103-2	The management approach and its components	Responsible management of the supply				
103-3	Evaluation of the management approach	chain				
Supplier socia	al assessment					
414-1	New suppliers that were screened using social criteria	The Group's strategic targets	24-25			
414-2	Negative social impacts in the supply chain and actions taken	The Group's strategic targets	24-25			
Consumer he	alth and safety I Management approach					
103-1	Explanation of the material aspects and their perimeter	_				
103-2	General information on managerial approach and its characteristics	The Group's strategic targets Product quality, design and sustainability	24-25 54-55			
103-3	Evaluation of managerial approach	,				
Consumer he	alth and safety					
416-2	Incidents on non-conformity concerning the health and safety of products or services	Note: there have been no incidents on non-conformity concerning the health and safety of products or services during the year	-			
Marketing and	d labelling I Management approach					
103-1	Explanation of the material topic and its Boundary	_				
103-2	The management approach and its components	The Group's strategic targets	ts 24-25			
103-3	Evaluation of the management approach					
Marketing and labelling						
417-2	Incidents of non-compliance concerning product and service information and labeling	The Group's strategic targets Integrity and conformity	24-25 42-43			
Socio-economic compliance						
419-1	Non-compliance with laws and regulations in the social and economic area	Note: there have been no meaningful sanctions in 2016	-			

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