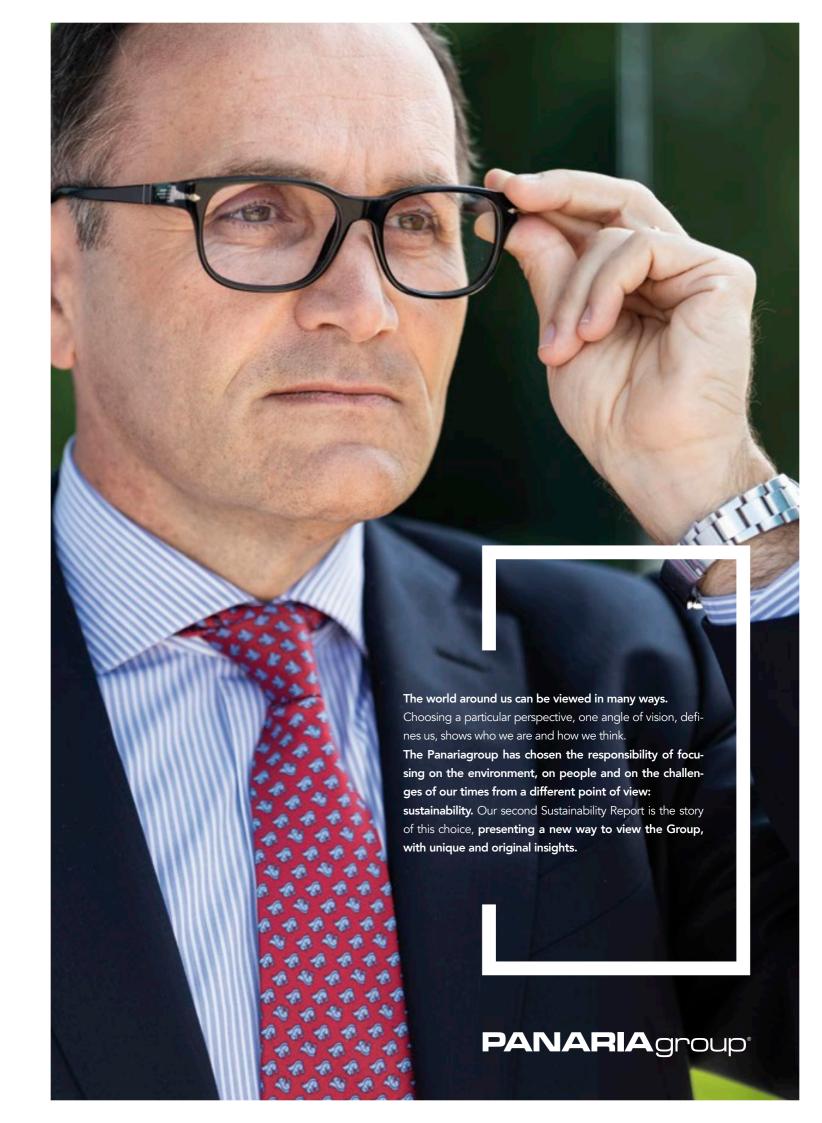


Sustainability Report 2017

We have chosen Emilio Mussini PRESIDENT OF PANARIAGROUP the world from a perspective that is special, original and responsible.



Letter to stakeholders It is my pleasure to present the new ${\bf Panariagroup~Sustainability~Report.}$

Last year, with the first edition of the report, we started to work on this **stimulating and exciting project** to finally collect and show in detail our efforts to do business responsibly in an ethical way, respecting resources and people. This has been a characteristic of the Panariagroup from the beginning and is true for the whole company today, starting with the Board of Directors.

Our first Report was an extraordinary opportunity to experience the enthusiasm of the people who work in this company, in all our commercial and operational centers, in regard to these issues. An environment favoring communication and awareness has enabled us to work even better on the collection of data and information used to prepare this new edition, covering the 2017 financial year. The report has been compiled in accordance with the most rigorous principles to comply with GRI Standards and is certified by a leading auditing company.

The first Sustainability Report has earned us extremely positive feedback from many of our stakeholders (institutional, financial, commercial) and this also means a lot to us. The values here show the way forward based on open and constructive dialogue.

I would like to stress again how this approach to doing business also represents for us **an important strategic asset in terms of differentiation**, further strengthening our position regarding the quality of our products and important decisions in terms of responsibility. We are convinced that consumers are increasingly orientated towards choosing those companies with a **credible and sustainable profile**.

This is why we reaffirm our comprehensive commitment to sustainability: from energy management to sales and marketing, from the well-being of our employees to the impact on local communities. And we reaffirm our determination **to make our standards of respect and reliability known.**

The year 2017 saw further important developments regarding our commitment to investment and innovation in our processes and products in a sustainable manner, as demonstrated by the achievement of the objectives that we formalized in the 2016 edition of this Report.

To conclude, we all believe **in this direction forward**, which will see us both promptly and frequently reporting on the new objectives we have been able to achieve.

Emilio Mussini President of Panariagroup

Juni Smili



llookaround Andrea Olivieri
DIRECTOR OF ENGINEERING, HEALTH & SAFETY
TOANO PRODUCTION PLANT the safety of the environment and the well-being of my colleagues.



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Economic

TURNOVER

(MILLIONS OF EUROS)

EBITDA (MILLIONS OF EUROS)

NET PROFIT (MILLIONS OF EUROS)

NET PROFIT PER SHARE (EURO)

> DEBT RATIO (NFP/EBITDA)

INVESTMENT (MILLIONS OF EUROS)

Environment ¹



ENERGY ² O. 1	GJ/sm 0.135
EMISSIONS INTENSITY .	tco ₂ /sm
WATER O.O	1 — O. 0 1 7
WASTE FOR RECYCLING	.8 - 93.2
WASTE RAW MATERIALS RECYCLED IN THE PRODUCTION PROCESS	100

2017

EMPLOYEES	1,686		1,729
PERMANENT EMPLOYEES	97.3		95.1
EMPLOYEES COVERED BY COLLECTIVE BARGAINING	70		70
INJURY FREQUENCY RATE	n.100,000 hours worked		3.0
INJURY SEVERITY INDEX	n.100,000 hours worked		51.1
COMMUNITY SUPPORT IN EUROS	88,000		225,173

The 2016 environment data has been recalculated integrating data for the Casalgrande and Sassuolo storage plants in order to make it compatible with the 2017 figures.
 The intensity values are calculated on the basis of sm of tiles produced during the year (22,690,715).
 The social data for 2016 has been recalculated to include Panariagroup USA Inc., Lea North America LLC., Montanari Ceramiche S.r.l. in order to make it compatible with the 2017 figures.



1.1 Note on methodology

This document presents the consolidated, annual, non-financial statement (hereafter also the "Sustainability Report") of the Panariagroup Group (hereafter also the "Panariagroup" or "Group") as required by the Legislative Decree 254/2016.

This statement complies with Article 5 of the Legislative Decree both in terms of specific wording and as a specific, separate report.

The Sustainability Report contains information to the extent necessary to ensure knowledge of the business activity, of its performance, of its results and of the impact of the activity, with regard to the issues considered relevant by and included in Article 3 of the Legislative Decree 254/16, with reference to the 2017 financial year (from 1 January to 31 December).

This statement has been prepared in compliance with the new reporting standards "Global Reporting Initiative Sustainability Reporting Standards" (hereafter "GRI Standards") issued in 2016 by the Global Reporting Initiative (GRI), according to the "in accordance - core" option. Furthermore, the CE Guidelines have also been taken into account, where appropriate.

The Group has prepared a materiality analysis, as envisaged by the GRI Sustainability Reporting Standards, in order to report the sustainability issues deemed relevant by its stakeholders and by the Group itself. This analysis followed on what was achieved last year and takes into account the matters and the areas envisaged by Article 3 of the Decree. It was also considered useful to provide, in the context of this analysis, a comparison of the relevant issues from the materiality matrix (see the paragraph on "Materiality Analysis") with the best industry practices in order to provide a comparison and a wider view.

The extent of the economic and financial data and information given corresponds to that of the consolidated financial statement for 31. December, 2017 of Panariagroup Industrie Ceramiche S.p.A. With regard to the **qualitative information and quantitative data relating to the social aspects**, the consolidated companies are included in the reporting scope, with the method used in the consolidated financial statements⁴. With regard to qualitative information and quantitative data relating to environmental aspects, the companies of the Group that manage production sites are included, while the companies with only commercial offices and the Montanari Ceramiche store (Crespellano (BO), Emilia Romagna, Italy) are excluded as they are not considered relevant to ensuring the understanding of the Group's business activity and the impact of the products themselves.

Information relative to the reference period is compared with that of the previous year, where available. To ensure the reliability of the data, the use of estimates was reduced as much as possible. When estimates are used, they are accordingly indicated as such and they are made using the best available methodologies.

The Panariagroup has developed **a strong, constant commitment** to the management and monitoring of environmental aspects, through the implementation of certification for the entire Group.

4. For the list of consolidated companies on a line-by-line basis, please refer to the "Group Structure" section of the Consolidated Financial Statement to December 31, 2017 by Panariagroup Industrie Ceramiche S.p.A.

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In 2017 there were no significant changes in the Group's size, organizational structure, ownership structure or supply chain.

Taking as a starting point topics considered relevant, in addition to the areas envisaged by the Decree, an evaluation was made of risks, both internal and external, taking into consideration the Group's activities, its services and products, including, where relevant and obtainable, supply chains risks and subcontracting risks.

The main inherent risks related to sustainability issues concern the following aspects in particular: compliance with national and international regulations; health and safety in the workplace; ethical behavior or the lack of integrity in business; management of environmental impacts; sustainable management of the supply chain. For more details, please refer to the paragraph "Managing the Risks of Sustainability".

The Panariagroup oversees sustainability issues through policies aimed at ensuring both monitoring and management.

In particular, the Group has already established several initiatives related to human resources management in the areas of health and safety systems in the workplace for employees and contractors; a process aimed at developing skills and careers for employees by defining training and development plans; protection of workers' rights, including special attention to relations and dialogue with employees' representatives.

The Group recognizes the **intrinsic value of each person** and works to ensure respect
for human rights, accessibility and treatment
with the utmost respect for diversity.

The Panariagroup has developed a strong, constant commitment to the management and monitoring of environmental aspects, through the implementation of certification (ISO14001, EMAS) for the entire Group and getting the AIA Report required by the Integrated Environmental Authorization (IEA) for the Italian plants. Besides this, activities and objectives are defined for energy efficiency, for the use of raw materials and for the reduction of environmental impact in the production cycles.

The Group recognizes the intrinsic value of each person and constantly works to ensure respect for human rights along the entire value chain, in particular by promoting accessibility and treatment with the utmost respect for diversity. For this reason, the Group is continuing the process of defining ad hoc rules and has set as the objective for 2018 the adoption of a Group Code of Ethics and a Code of Commercial Conduct for suppliers. In order to promote management increasingly focused on the fight against active and passive corruption, the Group envisages the adoption of policies and internal procedures by its foreign subsidiaries, based on the Organizational and Management Model compliant with Italian Legislative Decree no. 231/2001 and already adopted for Italian companies.

With the aim of continuing the process of integrating sustainability issues into the Group's value chain, the Panariagroup introduced a process of improvement that is **reflected in sustainability objectives for 2018/2020**, which were defined and approved by management and by the Group's governing body (for details see the paragraph "The Sustainability Targets").

The Panariagroup's Sustainability Report 2017 was approved by the Board of Directors of the Panariagroup Industrie Ceramiche S.p.A. on March 16, 2018.

Deloitte & Touche SpA undertook a limited examination ("limited assurance engagement" according to the criteria of ISAE 3000 Revised) of the Sustainability Report, according to the procedures indicated in the Independent Auditors Report included in this document.

For information on the Sustainability Report, please contact sustainability@panariagroup.it

1.2Our approach to sustainability

Panariagroup's mission statement is about growing and creating well-being in harmony with 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.

Always at the vanguard when it comes to combining 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 the 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 process 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 for 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 analyze and regulate the company's impact both on the economy and on 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 generated employment.

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.

For all these reasons, the first edition of the Panariagroup Sustainability Report, the one covering 2016, represented a highly significant moment for the company and for all its main stakeholders.

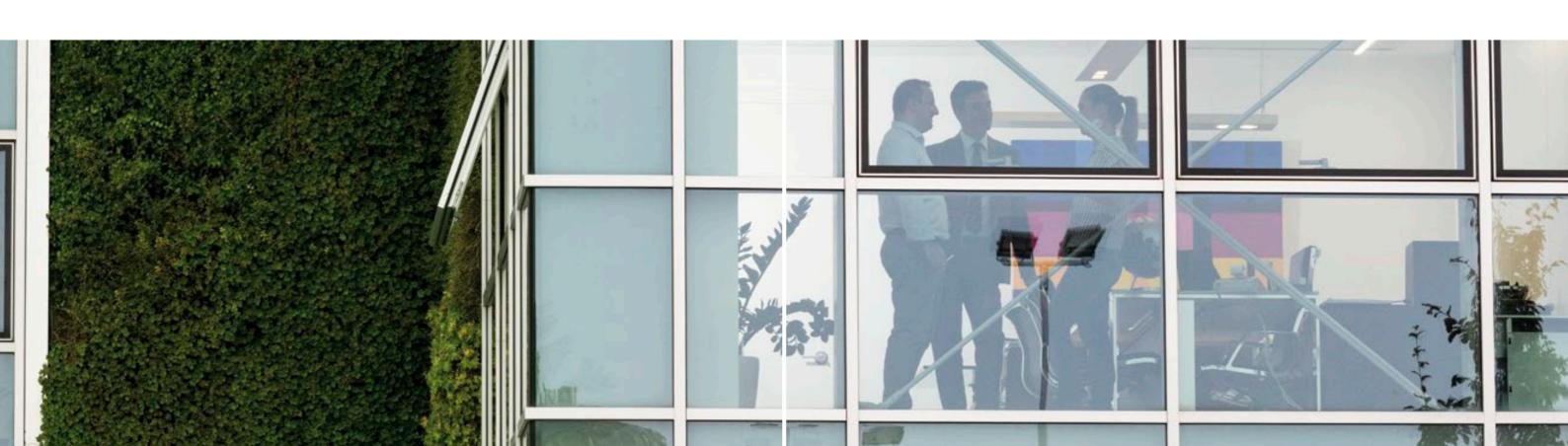
The publication of the 2016 edition was celebrated at a dedicated event in Milan, to which representatives of all the main stakeholders were invited and during which discussions were held with highly qualified speakers on issues related to sustainability linked both to business and to architecture.

The report was then presented on all occasions where there were higher level business meetings (for example, at all times during Cersaie 2017), but above all within the company, with employees. Activities involved communication and dissemination of the Report, which culminated in the delivery of a copy of it to each employee in the Italian Business Unit in their Christmas gift package (which, for the occasion, contained organic products).

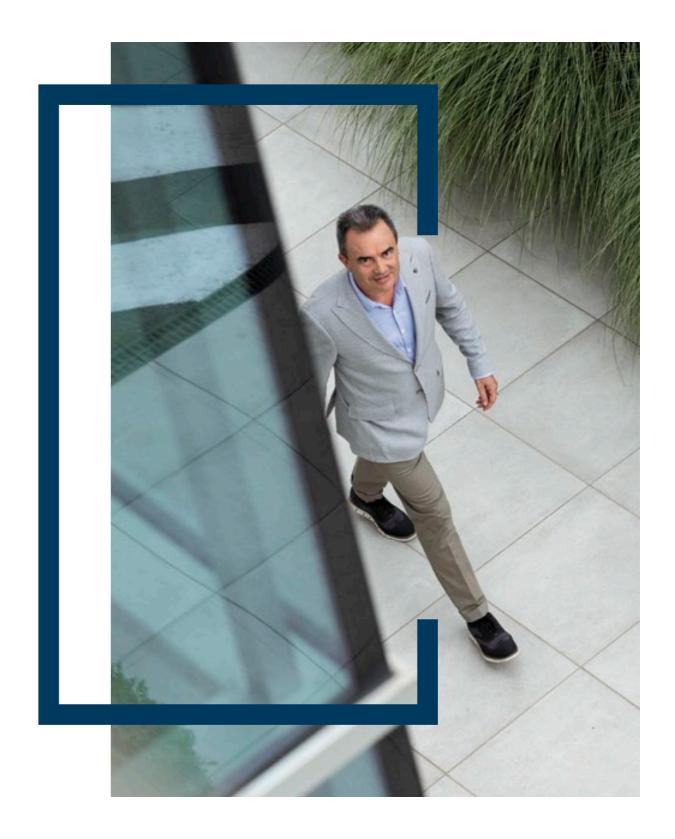
This new Panariagroup Report on Sustainability, therefore, not only answers the need to display to the stakeholders the activities of the company and its social and environmental impact, but also the necessity to **integrate with growing awareness the aspects of sustainability in the company's strategic 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 a vital step taken by Panariagroup towards this target.

The Group has been and is constantly committed to the development of new management systems, new procedures and new policies keeping in mind

respect for the environment and of society it belongs to or that surrounds it.



A future-oriented company not only generates Armando Bergamini DIRECTOR OF QUALITY - FLORIDA TILE is also alert to every aspect of its activities.



1.3 The Group's stakeholders and the relationship channels

Our stakeholders have played a pivotal role in Panariagroup's sustainable growth. 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 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, Responsibility (2015) and the GRI Standards principles.

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

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

Panariagroup 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 authorizations 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 industrialization areas such as the locations of its Toano (Reggio Emilia, Italy), Finale Emilia (Modena, Italy) and Lawrenceburg (Kentucky, USA) plants.

Through the involvement of the stakeholders and our awareness of their needs, the Group is able to pursue its economic, social and environmental targets in a shared and effective way.



1.4

Materiality analysis

In accordance with the GRI Sustainability Reporting Standards and the Italian Legislative Decree 254/2016, the Panariagroup carried out a materiality analysis with the aim of **defining the sustainability topics relevant to the Group and its stakeholders**. These are included in the 2017 Sustainability Report.

The materiality analysis aims to identify the most significant "material" economic, environmental and social aspects for the organization and its stakeholders. The result of this analysis, the materiality matrix of the Group, has therefore become **the point of reference for all the activities to be carried out** in preparing the Sustainability Report.

The first phase of the materiality analysis process was the **identification of topics that are potentially significant** both for the organization and for its stakeholders, as a result of an analysis of the context and of the reference sector, taking into account the themes referred to in to the Article 3 Paragraph 1 of the Italian Legislative Decree 254 / 16.

To this end, the GRI Standards, the United Nations Sustainable Development Goals (SDGs) and the results of a specific benchmark analysis on sustainability topics of companies in the sector were considered.

The potentially relevant topics, shown below, were presented to top management during a dedicated workshop in order to get an evaluation in terms of relevance for the Group and its stakeholders and to assess their requirements. For the purposes of this analysis, management in the United States and in Portugal were also included, as these countries fall within the scope of the report.

Material Topics	Description
Economic responsibility	Protecting the economic and financial stability and profitability of the Group, as well as the market presence and the distribution of the economic value generated among the Group's various stakeholders.
Governance and risk management	Structure and division of powers in the governance of the Group. Rules, procedures, control and risk management systems aimed at ensuring the correct management of business activities that includes issues related to sustainability (environmental, social and economic).
Integrity and compliance	Ethics, integrity and transparency in business activities that includes the adoption of policies and procedures to support compliance with current regulations and any specific regulations. Adhesion to national and international principles and guidelines that include areas of social and environmental responsibility, where the Group operates or is linked to business activities.
Relations with local communities	Ways to engage with local communities and create value through employment in the territories in which the Group operates.
Human rights	Management of activities along the value chain that present significant risks in the field of human rights (forced labor, child labor, freedom of association and collective bargaining, and discrimination at work).

Relations with government and industry sector institutions	Interaction, dialogue and collaboration with Public Administrations, Governments, Authorities and trade associations.
Investor Relations	Interaction and communication with investors. Safeguarding transparency in reporting on the Group's economic-financial and sustainability performance and adherence to international best practices and regulations.
Welfare and responsibility towards employees	Personnel management policies and activities to ensure employee well-being, protection of workers' rights, diversity and equal opportunities. Interaction, dialogue and collaboration with unions aimed at ensuring that the Group listens to employees' needs.
Employee training	Development and training activities aimed at enhancing the technical, managerial and organizational skills of employees and consolidating the professionalism required by the roles covered, which also include matters of ethics and integrity in business practice, health and safety and the environment. Career paths and retention of talent. Personnel policies, incentive schemes and career development based on transparent, merit-based performance assessment mechanisms.
Employee health and safety	Management systems and policies related to the health and safety of workers in the workplace. Training and awareness-raising activities and initiatives for the Group's internal stakeholders aimed at developing a culture of prevention and monitoring, as well as management of accidents at work.
Other environmental impacts	Policies for monitoring and managing environmental impacts along the entire value chain linked to spills, the management of hazardous and non-hazardous waste and other issues related to potential violation of environmental regulatory compliance. Training and awareness-raising activities and initiatives aimed at stakeholders to develop a culture of minimizing environmental impacts in daily activities.
Energy and water resources management	Policies for monitoring and efficient management of energy consumption and water resources. Use of energy from renewable sources (Green Certificates, photovoltaic systems, etc.) and implementation of water recovery and reuse systems in production cycles. Initiatives, activities and policies adopted with the aim of reducing energy and water consumption and minimizing atmospheric emissions from company activities.
Responsible supply chain management	Supply chain management aimed at promoting transparency between parties, responsible procurement practices in environmental affairs (which includes attention to the protection of biodiversity for suppliers of raw materials whose activities and processes have a high environmental impact), social matters and respect for human rights. Implementation of supplier evaluation systems based on social, environmental and quality criteria of their services and products.
Quality and design of products	Certifications, procedures and systems aimed at guaranteeing quality and continuous innovation in product design.
Innovation and technology	Use of innovative technologies aimed at increasing production efficiency and reducing the environmental impact of processes.
Development of green and sustainable products	Policies of development and management of the product life cycle, with particular attention to the sustainability of the product from its creation, in terms of design and choice of raw materials, up to the end of life.
Customer satisfaction	Procedures and systems for monitoring and managing customer satisfaction and any complaints related to health and safety, labeling, product information, communication and marketing activities.

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The Panariagroup's materiality matrix 2017

Even though no significant changes have been made to the Group's operations and to the reference framework, the materiality matrix published in the 2016 Sustainability Report has been revised, in line with what was achieved last year, taking into consideration industry best practices and issues covered by the Article 3 of Legislative Decree 254/2016. The results of the analysis are presented in the materiality matrix shown on the following page.

The materiality matrix, approved by the Board of Directors, highlights how **Economic Responsibility, Innovation** and **Technology, Employee Health and Safety, 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 Compliance, thus confirming that respect of laws and regulations and transparency are paramount for them.

In the future, the Panariagroup intends to increasingly involve its stakeholders in identifying and prioritizing material issues and identifying the extent of their impacts.

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



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The table below represents the extent of the impacts of material topics. The aim is to understand which sites, areas or entities within Panariagroup have the greatest impact in terms of the material issues identified in the materiality matrix.

Main Topics	Impacts	Typology of Impact
Economic responsibility	Group	Caused by the Group
Governance and risk management	Group	Caused by the Group
Integrity and compliance	Group	Caused by the Group
Relations with local communities	Group	Caused by the Group and directly connected to its activities
Human rights	Group and its suppliers	Caused by the Group and directly connected to its activities
Relations with government and industry sector institutions	Group	Caused by the Group
Investor relations	Group	Caused by the Group
Welfare and responsibility towards employees	Group	Caused by the Group
Employee training	Group	Caused by the Group
Employee health and safety	Employees ⁵	Caused by the Group
Energy and water resources management	Group and its electric suppliers	Caused by the Group and directly connected to its activities
Other environmental impact	Group	Caused by the Group
Responsible supply chain management	Group and its suppliers	Caused by the Group and directly connected to its activities
Product quality, design and sustainability	Group and its suppliers	Caused by the Group and directly connected to its activities
Innovation and technology	Group	Caused by the Group
Development of green and sustainable products	Group	Caused by the Group
Customer satisfaction	Group	Caused by the Group



^{5.} The organization is considering the possibility of collecting data from employers of external staff and suppliers who work at Group sites, in order to be able to report on any accidents and occupational diseases.

The sustainability targets

The Panariagroup aims to improve its impact on society in economic, social and environmental terms; for this reason, each year specific sustainability objectives to be implemented are announced. These represent a commitment that the Group makes towards its stakeholders.

Objectives reached in 2017



M. Business issues

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.

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.

Completion and inauguration of a new NDC (National Distribution Center) in our USA plant, with an 11,000 m2 increase in covered surface and a 15,000 m2 outside plot.

Installation of new equipment in our Italian business unit: 3 digital printing machines, 2 cutting/rectifying lines, 1 kiln, 1 complete line for laser guided pallet

J. Human resources

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.

Installation of the SAP system to manage all processes in our USA business unit.

Integration of our organizational model for security management in the Italian business unit through the installation of an ad hoc software and a more centralized plant management.



Upgrade according to anti-seismic guidelines of the whole Italian Finale Emilia

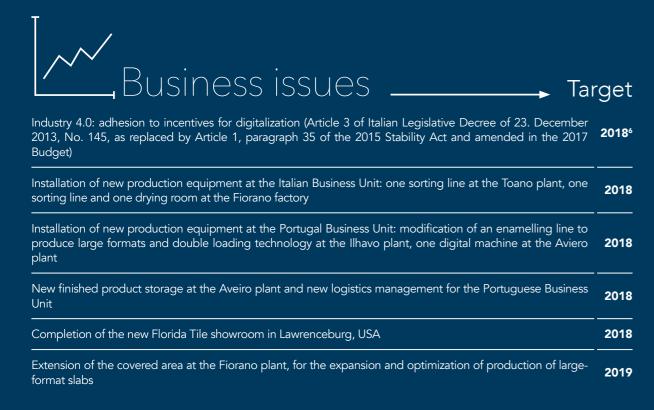
Installation of L.E.D. and magnetic induction lighting in the Italian Finale Emilia plant to replace neon tubes in order to strongly lower energy consumption.

Complete replacement of the existing covering with eco-compatible material in the whole Italian Finale Emilia plant.

Activities related to the use of the environmental product brand "ECOLABEL" to cover all the Italian porcelain stoneware collections have been suspended; an analysis is underway to compare other types of certification and to assess which one is best suited to the Group's objectives.

New objectives

To confirm the commitment to the advancement of a business model that integrates economic, social and environmental responsibility in all activities and in all aspects regarding the Group, the Panariagroup, following on from the previous year, has defined **new sustainability objectives**, listed below.





Progressive introduction of EPD (Environmental Product Declaration) for all porcelain stoneware and laminated porcelain stoneware collections for the Brands in the Italian Business Unit's catalogue, with installation and use of dedicated software

Upgrading of quality and environmental management systems to comply with the new ISO 9001: 2015 and ISO 14001: 2015 standards for the Italian and Portuguese Business Units

Implementation of a quality management system certified according to ISO 9001: 2015 for the US production plant

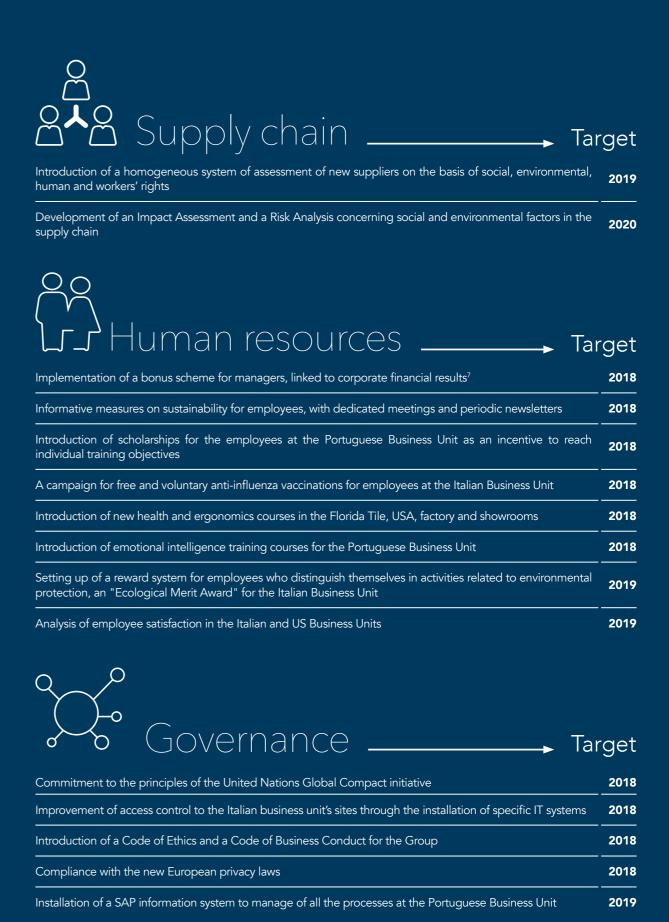
Installation of LED and magnetic induction lighting to replace fluorescent and neon lights at the Italian Toano plant in order to get a significant reduction in electricity consumption

Optimization of management, purification and recovery of wastewater and sludge at the Italian plants.

2018

Installation of ventilation systems to improve the working environment inside the press and atomizing departments of the Florida Tile plant in Lexington, USA

Introduction of a structured recycling system at the offices of the Italian Business Unit and an awareness campaign for a "green" workplace

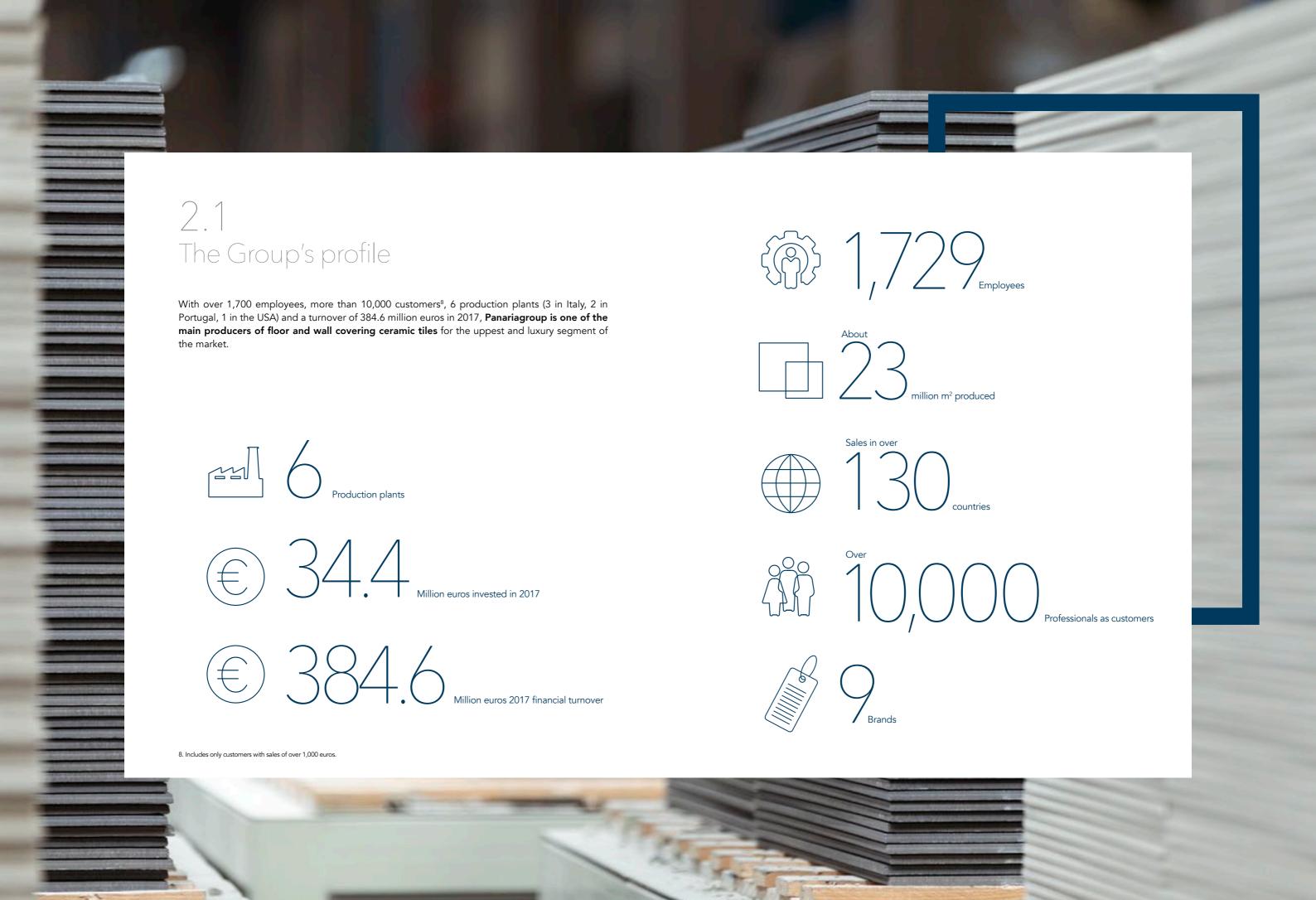


^{7. 2017} was dedicated to an in-depth analysis serving as the basis for a bonus scheme for all the jobs in the company. This system will be operational in 2018

^{6.} The target date has been postponed because the incentives, originally due in 2017, have been delayed by one year by the government.

Some of the investments made in the Italian plants during 2017 already conform technically with "Industry 4.0". In 2018, in addition to other investments, the implementation of an interconnection, necessary for obtaining the tax incentives, is planned.





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.

1997

During the 90s, Panaria implemented a strategy of expansion and extension of its Brands and products through the acquisition, in 1992, of Ceramiche Artistiche Lea, a company specialized 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.

1995

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.

2002

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.

2009

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.

2008

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.

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 internationalization 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.

2004

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 19th 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.

,2010

The expansion of Panariagroup does not stop here and in **2010** a new sales organization, 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.

2012

The most recent step in the Panariagroup internationalization 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.

2016

An important industrial upgrade was the installation of a third production line for laminated porcelain stoneware at the Italian Fiorano Modenese factory and of a third production line in the American facility in Lawrenceburg, both fully operational in 2017.

201/

The Panariagroup published its first Group Sustainability Report, concerning the 2016 financial year. In the same year, the reorganization of the commercial networks, begun in previous years, resulted in the introduction of the Contract & Key-Account Division, aimed to constantly increase market coverage and provide faster response to all the requirements of the diverse customer segments.

PANARIAgroup[®] LEA COTTO D'ESTE **PANARIA**group' **■ FIORDO** Blustyle **GRES PANARIA** Bellissimo MARGRES LOVE MONTANARI S.r.I. Store **PANARIA**group[®] U.S.A. Inc. LEA floridatile

Panariagroup in the world

The Panariagroup is present both in Italy and abroad with nine key Brands: Panaria Ceramica, Lea Ceramiche, Cotto d'Este, Blustyle, Fiordo, Florida Tile, Margrès, Love Tiles and Bellissimo, and is able to satisfy a diversified clientele which counts on the technical and aesthetic quality of the products.

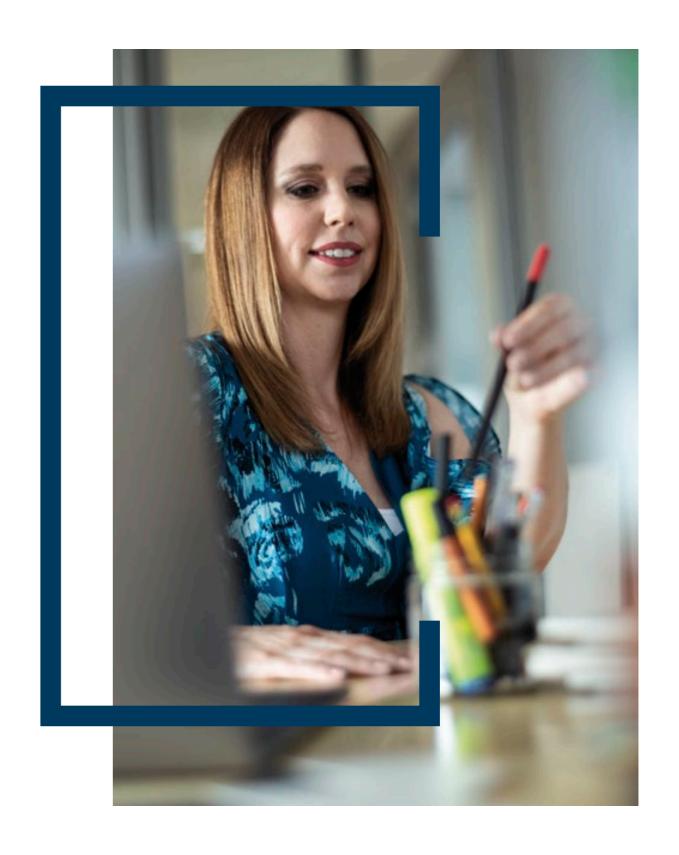
The Panariagroup consists of the parent company Panariagroup Industrie Ceramiche S.p.A. with registered offices in Finale Emilia, Modena (Italy), Gres Panaria Portugal SA with registered office in Ilhavo in Portugal, Panariagroup USA Inc. with registered offices in Delaware (USA), which owns the Florida Tile Inc. and Lea North America LLC companies. Furthermore, the Group owns Montanari Ceramiche S.r.l., with registered offices in Finale Emilia, Modena (Italy), a retail outlet for the Group's ceramic materials.

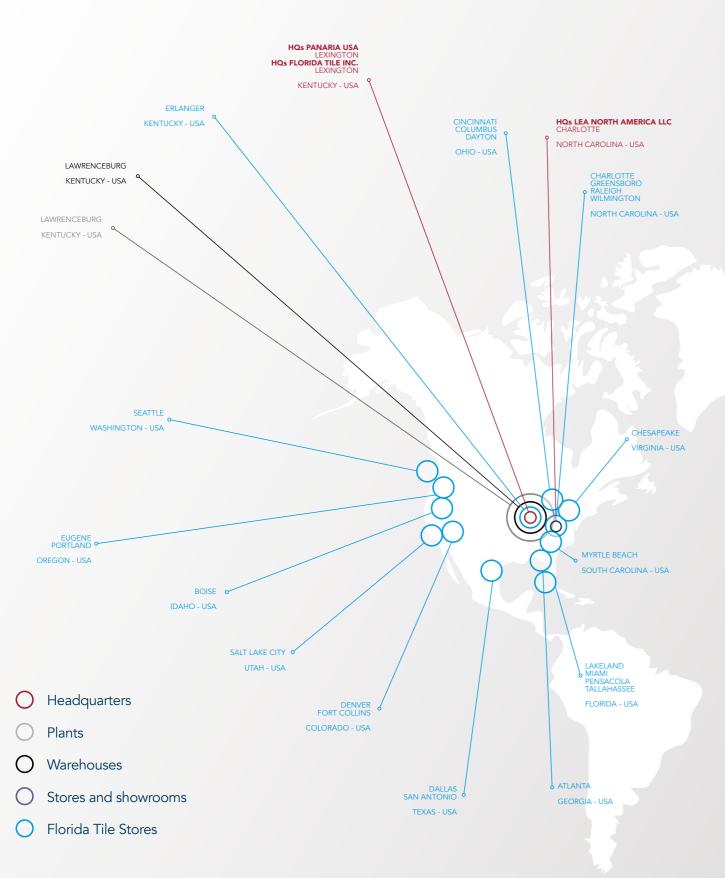
The Group's six production sites are located in Finale Emilia, Fiorano Modenese and Toano in Italy, Ilhavo and Aveiro in Portugal and Lawrenceburg, Kentucky in the United States. Furthermore, the Group has two other storage and shipping centers at Casalgrande and Sassuolo in Italy.

Panariagroup has a large capillary sales network that covers Italy, Portugal, the United States, India and over 130 countries worldwide. In fact, the Group's sales network takes care of over 10,000 customers worldwide, mainly retailers, but also distributors, construction companies and customers engaged in major projects.

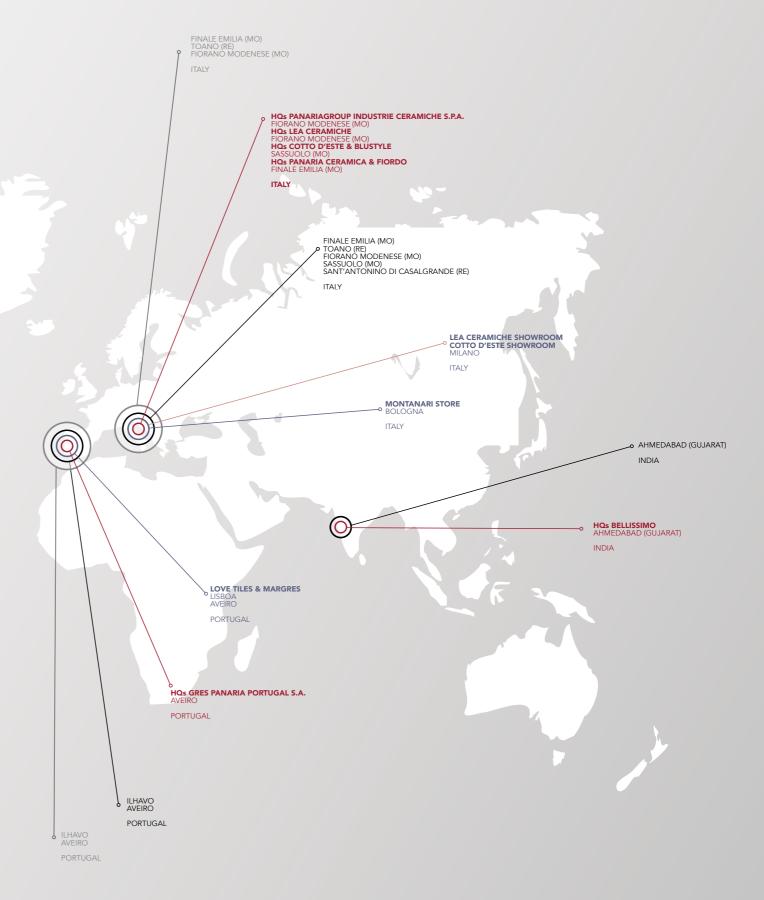
The marketing and distribution at the national and the international levels of all Panariagroup products is coordinated by an organization of about 1,000 people, including area managers, commercial correspondents and sales agents. Moreover, in the United States, the Group directly manages 24 stores located throughout the USA.

Acommon understanding of sustainability makes us much more than just a group of companies: it makes us a great team. DIRECTOR OF MARKETING - FLORIDA TILE





Where we are





2.5 Organizational 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 = Segment for Titles with High Requirements).

Its insertion in the STAR segment involved a retouching of the company's organization 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 and bylaws, correct administration standards, the adequacy of the company's organizational structure, internal control mechanisms, the adequacy of the instructions provided to the various Companies within the Group relating to the information to be provided 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 - 5 executive directors, 2 non-executive and non-independents directors and 3 non-executive and independents 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.



The Board of Directors pursues the primary objective of creating value for the shareholder,

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.

Composition of the Board of Directors

Full name	Role	Executive role	Auditing committee	Related parties committee	Remuneration committee
Emilio Mussini	Chairman and CEO	•			
Paolo Mussini	Vice-President and CEO	•			
Andrea Mussini	Vice-President				
Giuliano Pini	CEO	•			
Giuliano Mussini	Administrator				
Silvia Mussini	Administrator				
Daniele Prodi	Administrator		•	•	•
Sonia Bonfiglioli	Independent Administrator		•	•	•
Tiziana Ferrari	Independent Administrator		•	•	•
Francesca Bazoli	Independent Administrator				

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".

The above mentioned 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.

Management of sustainability risks

The Panariagroup has a system of internal controls and risk management in place to ensure sound and efficient management, as well as to identify, prevent and manage, as far as possible, risks related to business performance.

The Group has defined a risk management and internal control system, which, together with the guidelines, procedures and techniques adopted and put in place by the Board of Directors, executives and other parties in the company, is aimed at delivering a reasonable degree of certainty concerning the fulfilment of targets in the following categories:

- effectiveness and efficiency of operating activities;
- reliability of financial and non-financial information, for both third parties and internal purposes;
- compliance with current laws and regulations and with internal rules and policies.

In particular, the main risks identified are linked to:

- the general condition of the economy;
- credit and liquidity;
- the market in which the company operates (risks linked to competition, changes in raw material costs and Brexit);
- dependency on key people.

For further details, please refer to the "Risk Management" section of the Directors' Report in the Consolidated Financial Statement.

The Group, aware of the importance of non-financial risks, as also included in the Legislative Decree 2554/2016, has identified further risks that are internally monitored on a day by day basis. The main ones are shown below:

ENVIRONMENTAL RISK

Risks related to the failure to properly manage energy sources, water resources and waste, or to the possibility that industrial accidents could have an environmental impact.

Risks related to the failure by suppliers to properly manage natural resources and to the loss of biodiversity, in particular, in relation to the activities of suppliers of raw materials whose extraction processes could significantly impact the environment.

In environmental matters, the Panariagroup has adopted a specific policy regarding implementation of environmental protection activities as required by law and local authority regulations.

In particular, in Italy, as required by the Legislative Decree no. 152/06 "Environmental Regulations", the Panariagroup has obtained the renewal of the Integrated Environmental Authorization for the Finale Emilia, Toano and Fiorano Modenese factories (IPPC Directive - Integrated Pollution Prevention and Control).

In addition, the risk is monitored on a daily basis for production and logistics, considered the most significant areas here for the Group, using monitoring tools for the main indicators related to the environment and taking into account potential direct negative impacts (for example: spills, incorrect disposal of hazardous waste, water leaks from production processes, etc.).

As for the supply chain, the Panariagroup requires all suppliers of raw materials obtained by mining to have licenses for the mines that include the obligation to redevelop the land when the mines are no longer used.

RISK OF HUMAN RIGHTS VIOLATIONS

Risks related to human rights violations, including workers' rights, discrimination and also the failure to guarantee the workers' rights of association. The risk is connected in particular to the Group's suppliers operating in countries where legislation in this area is less stringent than in Italy.

The Panariagroup is particularly attentive to the management and prevention of this type of risk, which is monitored through compliance with national and international laws and regulations, as well as through Panariagroup's internal rules, in all the companies belonging to the Group. In addition, in 2018 the Panariagroup will adopt a Group Code of Ethics and a Supplier Code of Conduct, in order to have common principles, values and standards of social and environmental responsibility within the Group and with the business partners.

RISK OF FAILURE TO PROTECT HEALTH AND SAFETY IN THE WORKPLACE

Risks related to the Group's activities which, as a result of failure to comply with laws and internal regulations, may lead to accidents involving personnel.

At the Panariagroup's factories, offices and points of sale the maximum protection of the health and safety of all workers is guaranteed both through the full application of the national regulatory requirements of all the countries in which it operates and through an internal management system that includes procedures and tools to avert potential risks, protect all workers from them and constantly monitor the real situation at the workplace.

In Italy and Portugal, an environmental and safety management system has been developed in compliance with ISO 9001, 14001, the EU EMAS Regulation and Italian UNI INAIL guidelines, with the aim of developing and implementing internal procedures aimed at preventing, monitoring and managing accidents and accidents at work.

RISK OF ACTIVE AND PASSIVE CORRUPTION

Risk related to behavior or negligence that may lead to incidence of cases of corruption along the entire value

The Panariagroup, an international company present in Italy, Portugal, the United States and the main countries around the world with an extensive sales and sales network, has implemented the Italian "Modello di Organizzazione, Gestione e Controllo 231/01" (Organization, Management and Control Model) for all the Group's Italian companies. (Please see following paragraph "INTEGRITY AND Compliance").

Starting from 2018, the gradual internationalization of this model is planned, with the development of internal procedures and policies for the consolidated companies around the world.

Integrity and compliance

Ethics and compliance have always been one of the most important issues for both the Panariagroup and its stakeholders. The Group has always been particularly responsive to the need to ensure ethics, correctness and transparency in the conduct of all company activities and in relations with all its stakeholders, in order to ensure the highest level of protection of its reputation and image towards the market and its employees.

The Group has implemented policies aimed at reconciling economic, social and environmental development with a culture of strong ethical values, justice and respect for human rights. In this respect, the Group undertakes to combat child labor, forced labor, cases of discrimination and to quarantee freedom of association throughout its value chain, respecting the conventions of the International Labor Organization and the OECD Guidelines for Multinational Enterprises.

As a listed company, the Panariagroup endeavours to ensure maximum compliance with national and international regulations. Since 2009, the Group has implemented the Italian "Modello di Organizzazione, Gestione e Controllo 231/01" (Organization, Management and Control Model), initially for all Italian companies and currently being extended to foreign companies (in Portugal and the USA).

When this model was implemented, the parent company appointed a Supervisory Body tasked with monitoring the application of the Model and the related internal procedures.

The adoption of the Model is a valid tool for raising awareness among all those working in the name and on behalf of the Panariagroup and guaranteeing the principles and values of fairness, integrity and ethics throughout the value chain.

The mapping and analysis of risk areas has become a cornerstone of the Panariagroup's modus operandi, which, focusing on prevention, has adopted specific internal procedures and instruments with the aim of monitoring and preventing cases of violation of regulatory compliance and corporate reputation.

The fight against corruption, both active and passive, is an integral part of the 231/2001 Model. Activities and organizational structures are subject to the controls and checks defined by the Model 231/2001. In this context, it should be noted that both for 2016 and 2017 there were no episodes of corruption.

Additionally, Panariagroup did not record any pending or resolved legal proceedings during the reporting period in relation to anti-competitive behavior and did not record any violations of the anti-trust and monopolistic legislation in which it was identified as a participant.

Finally, in matters of regulatory compliance, for 2017 the absence of significant fines and non-monetary sanctions for non-compliance with laws or regulations in the social, economic and environmental field, of incidents of non-compliance with regulations or voluntary codes related to the health and safety of the Group's products and related information and product labelling, has been confirmed.

> The Group has implemented policies aimed at reconciling economic, social and environmental **development** with a culture of strong ethical values, justice and respect for human rights.



3.1 The 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.

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.

The Group has a continuing relationship with investors and analysts from the financial community and is committed to transparent communication related to the requirements envisaged by the listing on the Milan Stock Exchange.

To further encourage dialogue with investors, the Group has set up a special section (called "Investor Relations") on its website (www.panariagroup.it) where the relevant information for its own shareholders is available.



Panariagroup carried out various activities related to investors and financial stakeholders in 2017. In particular:

- participation at **two events dedicated exclusively to companies in the STAR segment**, organized by Borsa Italiana (the Italian Stock Exchange), to meet the Italian and international financial community. The two events were held respectively in Milan (March 2017) and London (October 2017);
- participation at an event organized by a leading brokerage company, to meet investors in Rome (May 2017);
- a constant and continuous dialogue with credit institutions;
- dedicated **meetings with investors, at company sites**, aimed at making the company and the production facilities of the Panariagroup known.

The issues of greatest interest to investors during the year were business development, the competitive environment, investments and the key competitive differentiators relating to the sector. For investors, the Sustainability Report is increasing considered as an added value element for the company's position in the mid-high range of listed companies.

Panariagroup 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.

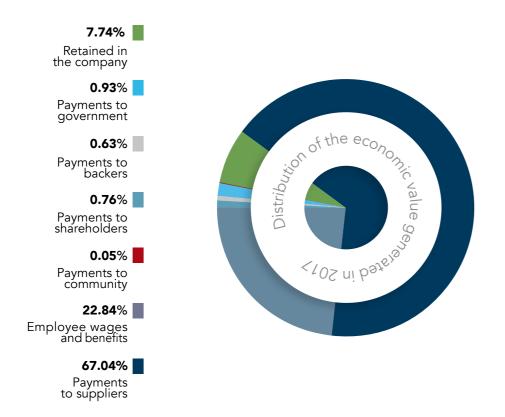
Panariagroup - Sustainability Report 55

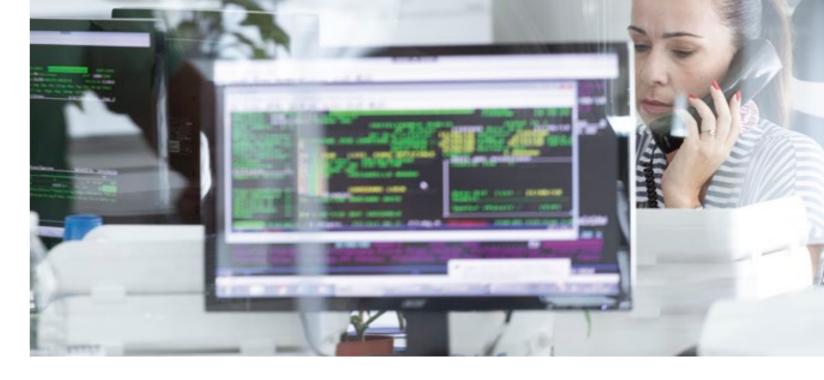
Everywhere there are challenges to meet: company results, Andrea Zanni CEO - GRES PANARIA PORTUGAL safeguard of human and natural heritage.



3.1.1 Economic value generated and distributed

The economic value generated expresses the wealth produced by the Group, the majority of which is distributed to the stakeholders with whom the Group interacts with in its daily operations. The classification of the Economic Value Generated below shows the distribution of the value created by the Group to the various stakeholders.

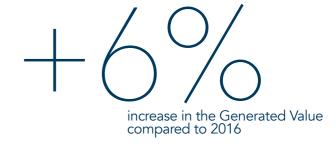




	2017 Thousands of euros	2016 Thousands of euros	Difference Thousands of euros	Variation
Payments to suppliers	277,617	258,275	19,342	7.5%
Employee wages and benefits	94,501	91,999	2,502	2.7%
Payment to backers	2,625	2,998	-373	-12.4%
Payments to shareholders ¹⁰	3,145	3,145	0	0%
Payments to government	3,863	5,308	-1,445	-27.2%
Payments to community	225	338	-113	-33.3%
Retained in the company	32,032	29,832	2,200	7.4%
Economic Value Generated	413,783	391,895	21,888	5.6%
Economic Value Distributed	381,751	362,063	19,688	5.4%

A comparison with the previous year shows an increase in **the Generated Value of 21.9 million euros or 6%**; this permitted an increase the value retained in the company of 7%, but also allowed an increase in the value distributed to stakeholders by 5%, in particular to suppliers (+ 7%) and employees (+ 3%).

In 2017, the Panariagroup contributed to the **socio-economic development of local communities in which the Group operates** through donations and sponsorships in support of charitable, sporting and industry associations. The total amount of this support was around 225,000 euros.

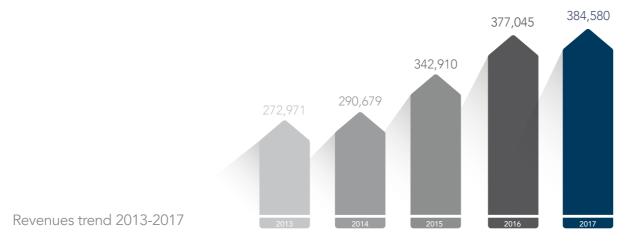


^{9.} The economic value generated and distributed was restated on the basis of a new methodological model

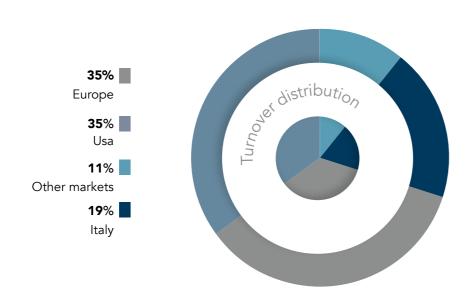
^{10.} The dividends for the 2017 financial year will be recommended by the Board of Directors at the Shareholders' Meeting.

3.2 Financial results 2017

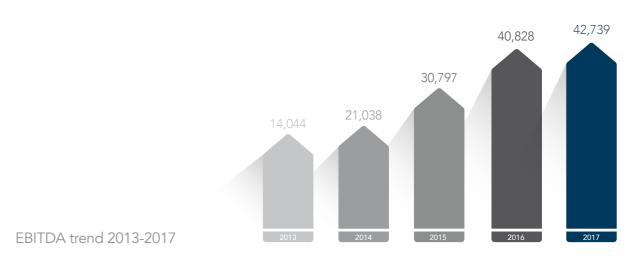
Over the last 5 years, which were not always economically favorable, the Group has achieved **a substantial revenue growth of over 110 million euros**. The average growth rate from 2013 to 2017 was 9%, providing an increase in market share.



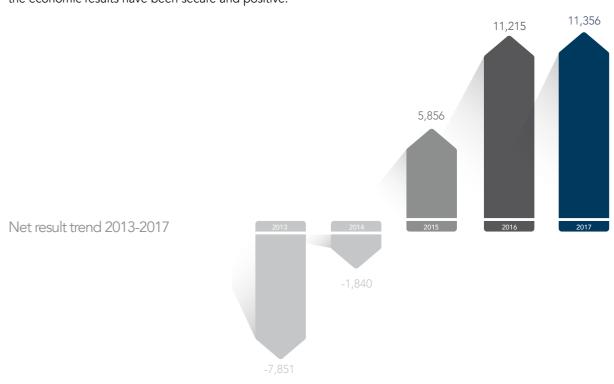
The geographic distribution of turnover in 2017 confirms the Group's international vocation, with turnover in foreign markets accounting for 81% of total turnover, of which 46% was in areas outside of Europe.



An increase in margins accompanied the growth in revenues with a significant improvement, at levels in 2017 higher than the good results of the previous year.



The recovery from the crisis which peaked in 2013 for the Group, is evident; in the last three years, in particular, the economic results have been secure and positive.





Net income per share for 2017 was € 0.25; the dividend proposed by the Board of Directors of € 0.07 per share represents 28% pay-out.

In the financial year 2017, the Group's financial strength was confirmed, with a ratio between the Net Financial Position and the Gross Profit Margin of 2.33.

As can be seen from the graph, for the third consecutive year, the NFP / EBITDA ratio remained well below the threshold of 3.

The index demonstrates the sustainability of the Group's financial position and expresses the reliability and capacity to honor its financial commitments.



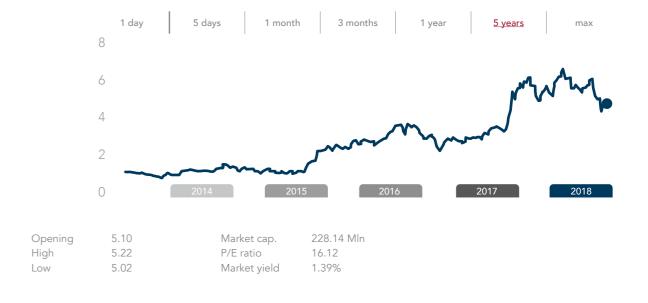


The Panariagroup share price on the stock exchange reflects the company's economic performance, and in 2017 share prices climbed higher than in the last 5 years.

In 2017, the share price rose by 73%, from € 3.34 per share at the start of the year to € 5.80 per share at the end of the year. The market capitalization on December 31, 2017 was € 263 million.

Panariagroup Industrie Ceramiche S.p.A.

BIT: PAN - 13 mar, 17.29 CET 5.03 EUR \(\psi\)0.03 (0.59%)



Investing in innovation

In regards to the Group's investments, the efforts were focused on technological innovation in the factories, on the development of products with a high aesthetic and qualitative content, on the increase in productivity and production capacity.

Even in the years in which the economic context was uncertain, the Panariagroup has never stopped pursuing its policy of technological innovation, increasing production capacity and improving efficiency.

Over the last 3 years the Group has invested over 110 million euros (10% of turnover) in order to keep its position as one of the small number of leading companies in the sector, without compromising financial stability, but in fact, strengthening its financial structure.

Investments

Total 2013-2017	110.7	10.0%
2017	34.4	8.9%
2016	38.1	10.1%
2015	38.2	11.1%
YEAR	TOTAL (mln of euros)	% of revenue



Over the last 3 years the Group has invested over 110 million euros in order

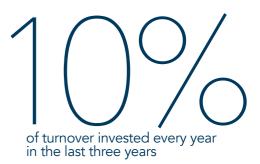
to keep its position as one of the small number of leading companies in the sector.

The level of investment clearly shows that the Group has implemented a major program to create a solid industrial, logistical and organizational base in line with the strategic development plan.

The investments in this period concerned all three Group Business Units, as can be seen in the following table (figures in millions of euros).

Year	Italy	Portugal	USA	Group
2015	17.3	7.3	13.6	38.2
2016	13.7	5.2	19.2	38.1
2017	13.1	13.8	7.5	34.4
Total	44.1	26.3	40.3	110.7
% of total	40%	24%	36%	100%
% of turnover	8%	13%	10%	10%

Moreover, the Panariagroup regularly participates in government and community incentive programs linked to innovation, research and development objectives. For example, in Portugal, in 2016 a 10 million euro investment plan for the two-year period 2016-2017 was submitted, which will benefit from low interest loans and, upon reaching certain objectives in terms of return on investment, from non-repayable grants.



tocus on: economic sustainability

In 2017, the Group continued its program of innovation, improvement and increasing efficiency at the industrial plants.

The most significant investment concerned the Portuguese Business Unit with the installation of a new complete line at the Aveiro plant, made to the most advanced industry standards in terms of productivity, automation and energy efficiency.

In addition to increasing the production capacity, the new plant, due to its design, is particularly suitable for the production of traditional large-format stoneware, both floor and wall tiles, which makes the range of our Portuguese Brands more complete and competitive.

The expansion of the Portuguese site, supports the strong growth of the local Business Unit, but aims above all to further enhance its strategic function as a manufacturing hub for all the Panariagroup Brands.

In the Italian Business Unit, at the Fiorano Modenese factory, to complete the important investment made in the previous year concerning the installation of the third line for laminated porcelain stoneware, new product finishing lines were installed for cutting, grinding, polishing and matting, which further increases the range of this type of products in a market that is still expanding.

With reference to the innovative "Industry 4.0" program, it should be noted that a part of the investments made in the Italian plants already has technical characteristics in line with these standards; in 2018 we will continue to invest further and implement an interconnection, which is the key to this technological transformation.

Also in the US Business Unit, at the Lawrenceburg plant, in line with the objective of increasing the volume of business and with a view to improving the efficiency of logistics and customer service, considerable work has been carried out to enlarge the buildings and to the rationalize the storage and shipping areas of the "National Distribution Center", which began operations in February 2017.

Furthermore, concerning the USA, we would like to highlight the creation of a new Research Laboratory, at the Lawrenceburg site, which is purpose-built for the new product range development. In this way, the Group is working to further strengthen the Product Development function, which we believe is of vital importance for this market segment, and to structure a fixed procedure, centrally defined and valid for the entire Group, which, through detailed market analysis and the understanding of new trends in technology and aesthetics, aims at creating products that are more and more responsive to customer needs.

Still in the organizational area, starting in the second half of 2017, the Group set up a commercial division dedicated to large projects, consisting of a team of consultants and a team of salesmen, able to interface with architects and designers and assist them in finding solutions, techniques and aesthetics using ceramic material, not only for traditional flooring and covering, but also in highly technical applications such as ventilated facades, floating floors, furniture tops, etc.

Working alongside this Division, is a project support team, made up of a group of technicians, researchers and engineers, operating with the aim of better capturing opportunities in this particular market segment, where the traditional retail channels are not usually used, but which requires direct dialogue with major customers.

Today the Group is one of the world's leading companies in the ceramic sector, in terms of internationalization, technology, ability to interpret market trends and corporate management.

The medium to long term strategy is aimed at continuing to be among the key players in the market; this is why it is essential to affirm the ability to embrace new technologies, product innovation, new markets and the strong sense of values and excellence which Italian ceramics have always represented.

Ceramics are increasingly becoming a "universal" material, with a remarkable widening of the ways in which they can be used, compared to the traditional ways.

The qualitative, technical and aesthetic characteristics, and its competitive cost, make it an interesting material for purposes where in the past other types of products were used, for example "outdoor" flooring, kitchen tops and, more generally, as a substitute for marble, natural stone and wood for many other uses.

These trends, which are emerging very clearly, and from which we expect to benefit in the coming years, further encourage the company to continue with its planned growth strategies.



A part of the investments made in the Italian plants already has technical characteristics in line with the innovative

"Industry 4.0" program standards.



Product quality, design and sustainability

Technological 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 floor and wall 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, characterized 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 porcelain stoneware allows the creation of tiles characterized by an extreme thinness (down to 3 mm), produced in 300x100 cm slabs with no need for moulds. A completely automatic cutting line allows then to obtain the various commercial formats.





The Panariagroup products were born in an environment strongly dedicated to design and aesthetics.

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.

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.

2017 marked a fundamental step for product development at the Panariagroup, with the creation of a Group Product Development Function, whose aim is to select the best market trends and to further develop them through qualified research to the highest standards in order to generate concepts for new collections.

At the same time, a product development process was launched to efficiently and effectively structure the time to market for new products, which are increasingly able to meet the most sophisticated customer expectations. 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.

And in the architectural field, there are many international sustainable architecture projects for which the company's materials have been selected.

Amongst those, particularly deserving of a mention is the **Bosco Verticale**, 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 synergy between nature and architecture, and in which Panariagroup took part with Cotto d'Este and Lea Ceramiche products.

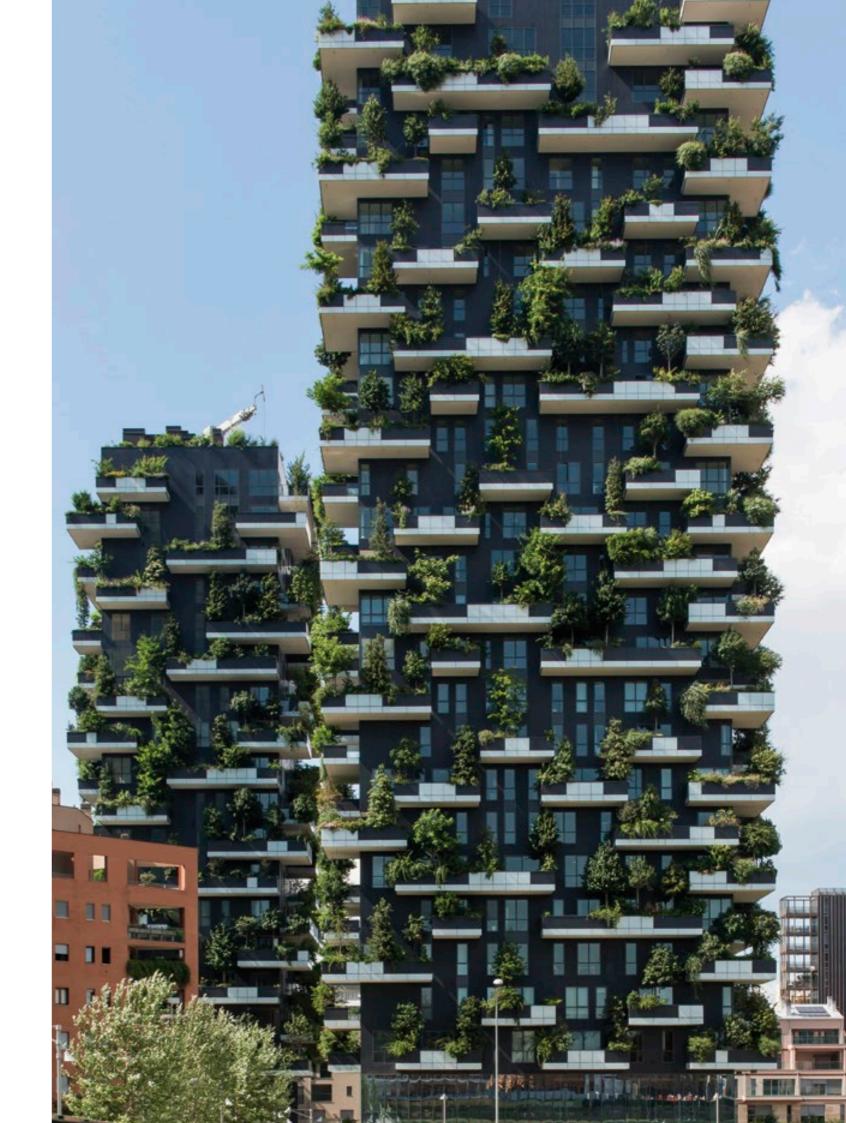
Lea Ceramiche and Cotto d'Este also contributed to the construction of **Casa Monica in Modena**, the first residential building in Italy to reach the Platinum, the highest level of certification by GBC Home.

In addition, other reference projects in this field notable, such as the **Deltazero** building **in Lugano**, a model and statement for innovative design and construction standards, the result of the work of a pool of designers who conceived, designed and built it in synergy with experts from the fields of geothermal and solar energy, acoustic engineering, building physics and domotics.

Also worth mentioning is the Gallo Senone Resort (Senigallia), a tourist resort in the Marche region of Italy, the first structure to be given the ClimaHotel certification for energy efficiency and respect for the environment and the "CUBI D'ORO" award, the jury prize at CasaClima AWARDS 2017.

Noteworthy, too, among the sustainable architecture projects are the Reale Mutua Headquarters (Turin), the Velux Atika Demo-House (Milan), Le Ville di Porta Nuova (Milan), the residential high-rise blocks "Solaria" e "Aria" in Porta Nuova (Milan), the Unipol Tower (Bologna), and the Carlos Rosario International Culinary School (Washington, USA).

The "Bosco Verticale", the extraordinary, award-winning project by the architects Boeri, Barreca and Lavarra, in Milan, **is a work that stands for sustainability**, giving evidence to the synergy between nature and architecture, and in which Panariagroup took part.



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

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

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 CERAMIC TILES

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.

floridatile

FLORIDA TILE, with a Kentucky manufacturing facility and 24 showrooms in the United States, creates and sells innovative porcelain and natural stone flooring 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 with national market leaders thanks to its new production capacity and the continuous technical and aesthetic innovation of its products.

Bellissimo

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

Over the years, the Group has 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 the Panariagroup is 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 center 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 floor and wall 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 ambitious projects.

In 2018 this product will undergo an important development thanks to the production of two new types: two new formats (120x260 cm and 120x120 cm) and a new thickness (6 mm).

> 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.

2017 marked a further important step in the Panariagroup's technological evolution: the new line for laminated porcelain **stoneware** in the Fiorano Modenese plant.

Another clear example of the Group's innovative ability 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 conditions.

2017 marked a further important step in the Panariagroup's technological evolution; in fact, the new line for laminated porcelain stoneware in the Fiorano Modenese plant started production and the machining department for cutting, grinding, honing and matting was enlarged.

At the Aveiro (Portugal) production unit a new production line was also installed. The machinery and equipment have an excellent environmental performance, such as a system for recovering hot gases in the furnace burners, low consumption burners, drying rooms using heat from the kiln and the packaging line.



Customer 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 organization, but also with flexibility and ability to answer any need.

Vertical organization 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.

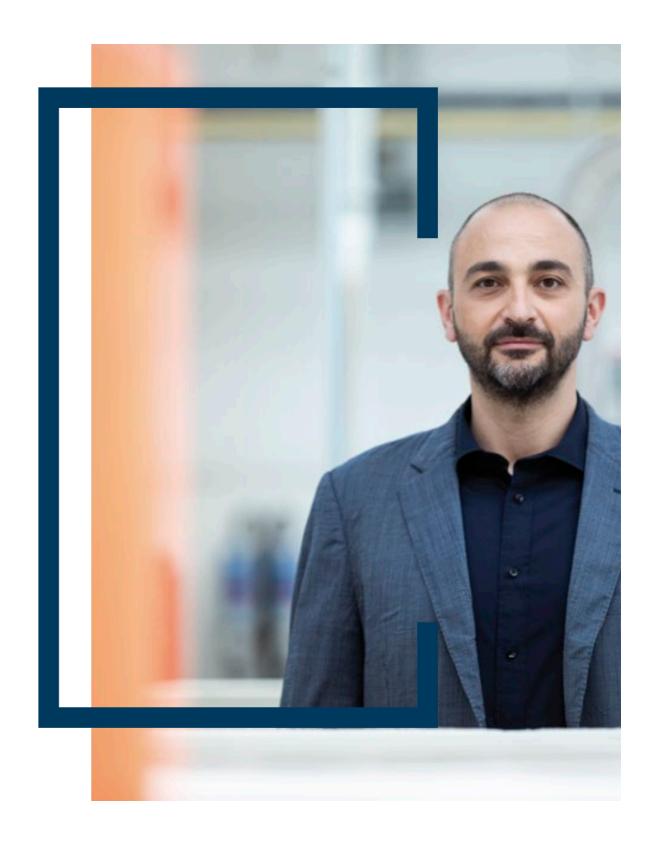
In order to satisfy customer requests, also post sales, the Panariagroup has an efficient system for managing and monitoring complaints and claims. The aim is to respond more effectively and promptly to specific customer requests concerning the quality of products, with structured procedures and criteria codification for the whole Group. For this reason, in 2017 the centralization of this service was started and the structure was renewed to guarantee better service.

Additionally, in 2017 the new dedicated Contract and Key Account division became fully operational, through which Panariagroup provides a structure specialized in the relationship with a particular customer segment such as designers, professional studios, architects, etc., with a sales team and a design and service unit able to respond efficiently and specifically to all the needs of this specific type of customer on a global scale.

Vertical organization that aim to completely cover markets and distribution

are supported by horizontal structures specifically dedicated to certain geographic areas or particularly strategic targets.

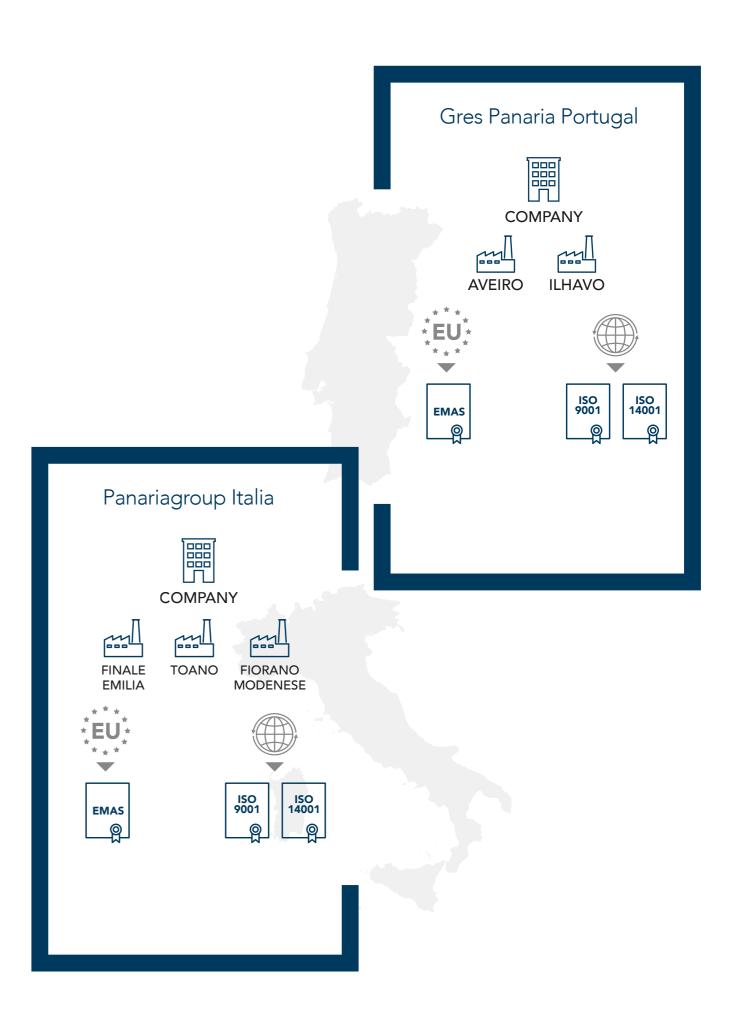
For us, a product is a successful project, a satisfied Marco Grisendi TECHNICAL DEPARTMENT - PANARIAGROUP a commitment respected. This is how we are.



4.5 System certifications

Panariagroup has adopted the ISO 9001 quality management system that 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
OF THE PARTY OF TH	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
SELECTION OF AMERICANS THE CONTROL OF AMERICANS AND THE CONTROL	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	The EU EMAS Eco-Management and Audit Scheme for organization 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

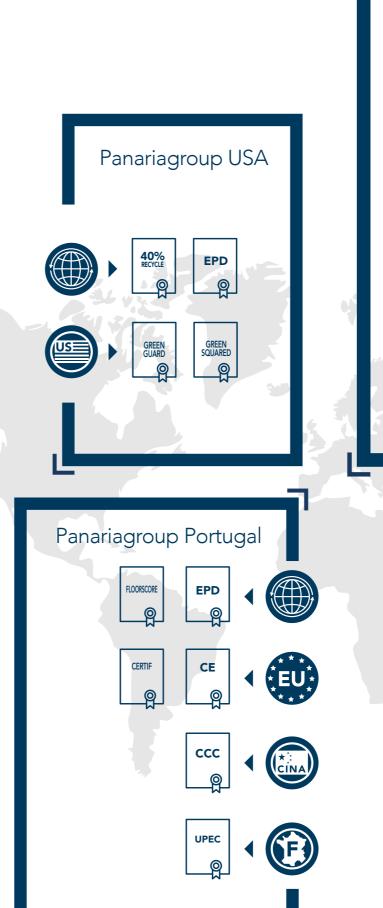


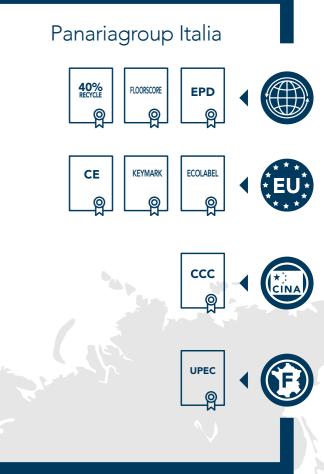
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Product certifications

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	•	•	
C rif	The Certif mark confirms that the certified products are compliant with the EU laws regarding ceramic tiles.	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 People's Republic of China only ceramic tiles bearing the CCC marking, which Panariagroup obtained, on several products, since March 2006.	CHINA	•	•	
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	•	•	•
Ecolabel Ecolabel 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	•		
GREENGUARD GREENGUARD	Panariagroup achieved the prestigious Greenguard certification, confirming the compliance 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.	US			•
Cartes Spales Contacts of Environment	It is a TCNA initiative aimed to recognize 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.	US			•
40%	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	•		•





focus on:

eco-sustainable products for a better quality of life

Acting responsibly also means analyzing the sector in which we operate.

The construction sector is intrinsically high impact, in terms of energy consumption, use of raw materials, water and land, waste generation and also CO₂ emissions. This is an important factor that, if not properly managed and addressed, leads to serious consequences for the environment and the world we live in.

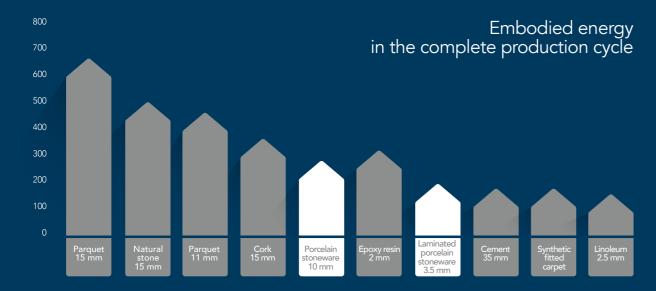
Consider that, for example, in Europe from 2030 architects, in addition to the Energy Performance Certificates, will have to choose construction materials and techniques according to their environmental impact.

Therefore, without eco-friendly building materials, sustainable buildings cannot be built. In this sense, not all building materials are equal.

Ceramics (and stoneware) materials have long been used for building, thanks to their high durability, strength and expressive capacity.

But ceramics are also important for having an achievable lower environmental impact.

The most common measurement for this superior quality of ceramics is embodied energy. This measurement indicates the amount of energy used throughout the whole lifecycle of a product or service.



The Panariagroup's porcelain stoneware and laminated porcelain stoneware are much more long-lived than any other tiling and cladding materials. For this reason, even from an energy consumption point of view, in the long term they are even more energy efficient than materials that use less energy in the production phase, such as carpets. If we assume that a carpet must be replaced every 20 years, after sixty years it will have consumed three times the energy necessary to produce it; on the other hand, after the same period of time, the Panariagroup's porcelain stoneware and laminated porcelain will still be in excellent condition.

Porcelain stoneware and laminated porcelain stoneware are very long-lasting materials: they last as long as the building in which they are installed, more than any other covering material.



Porcelain stoneware and laminated porcelain stoneware are very long-lasting materials: they last as long as the building in which they are installed, more than any other covering material. At the end of its lifecycle, porcelain stoneware can also be completely recycled for a building foundation or for road works, or easily disposed of like any other inert material.

The production of porcelain stoneware uses less energy¹¹ in comparison to most other covering materials (parquet, natural stone, cork). For this reason, and thanks also to modern production facilities and its very high durability over time, our porcelain stoneware emits less CO₂ per square meter of product.

The photovoltaic systems installed on the roofs of the Group's plants also make it possible to reduce the electricity needs of the production plants.

As well as the very high aesthetic and quality standards, natural resources are safeguarded by these eco-friendly products, most of which contain at least 40% of recycled raw materials.

^{11.} Values obtained from the elaboration of EMAS data for Panariagroup laminated porcelain and the ICE and ECO-BAU database for 10 mm thick porcelain stoneware, which include the energy consumption values for the extraction of raw materials (source: EPDs of products of the same thickness)

But the Panariagroup is not only focused on advantages linked to production cycle, but also to creating products that improve the quality of life and the environment.

In fact, another important investment by the Panariagroup is related to antibacterial surfaces. The exclusive PRO-TECT technology eliminates up to 99.9% of bacteria. The additive, based on silver ions, is integrated into the DNA of the products: it inhibits the proliferation of bacteria 24 hours a day, even in dark or poorly lit environments (unlike similar technologies based on titanium dioxide) and is effective for the whole life of the tiles.

Moreover, a maximum level of hygiene is guaranteed: since the porcelain stoneware produced in the Group's factories is fired at a temperature of over 1,200 °C, its surface is, like glass, non-absorbent, free from pores and moisture. Therefore it does not retain dirt and dust and does not allow mites to nest. This is why the ceramics of the Panariagroup and its Brands are widely used in places that require maximum hygiene, such as health facilities, laboratories, kitchens, restaurants, kindergartens, schools, retirement homes, etc.

Also in terms of cleanliness, the Panariagroup standards are very high. The ceramic surfaces can be cleaned using only hot water and microfiber cloths. From time to time (every 10-20 days) it is recommended to use a highly diluted neutral detergent and to rinse with water.

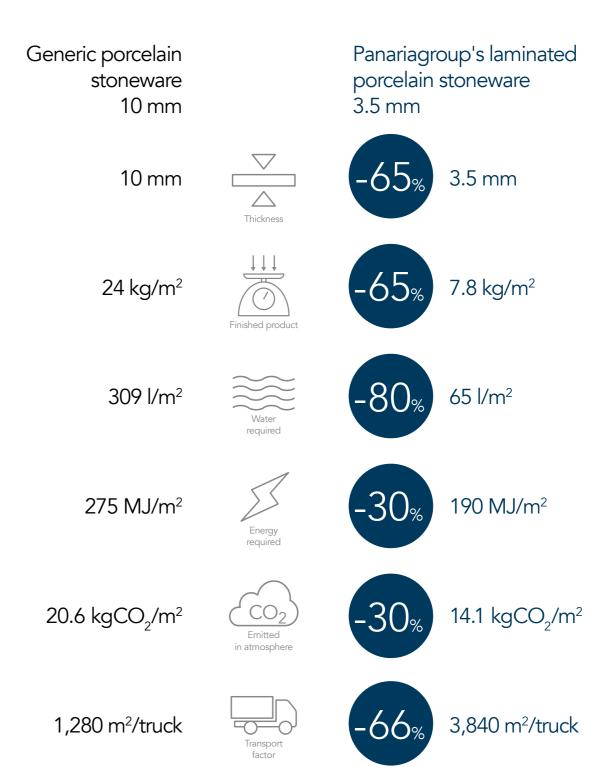
It is also worth remembering that ceramics are an inert material which, by nature, do not produce any chemical reactions. Therefore, the Panariagroup's products do not release any harmful volatile organic compounds (VOC).

For all these reasons, using the Panariagroup porcelain stoneware for the cladding of internal and external surfaces provides numerous, important health benefits compared to other ceramic products, or marble, or natural stone, or carpets and linoleum.

> Ceramics are an inert material which, by nature, do not produce any chemical reactions. Therefore, the Panariagroup's products do not release any harmful volatile organic compounds.



The environmental identity card of Panariagroup's laminated porcelain stoneware





5.1 Environmental 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 and the 2016 Sustainability Report.

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 porcelain stoneware 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. In 2017 Panariagroup began the process of transitioning the quality and environmental management systems to the respective new ISO 9001: 2015 and ISO 14001: 2015 standards.

The EMAS declaration reports on the environmental performance and the preestablished improvement objectives. It is published annually on the company websites for the Italian plants and production plants.

Additionally, the Panariagroup compiles the annual AIA report, as required by the Integrated Environmental Authorization, for Italian production sites, containing environmental performance data and specific performance indices.

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

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 relating to ceramic tiles. Most of them have the requirements for obtaining credits from the main building rating systems, such as LEED.



focus on: significant 2017 initiatives in Italy

The Panariagroup's commitment to the protection of the environment and the conservation of natural resources is particularly expressed in the management of production systems, which is aimed at prevention and minimization of environmental impact.

In order to improve its environmental performance, the Panariagroup has implemented several initiatives and projects that have achieved important results.

The following are some of the main activities carried out in the Italian plants relating to the optimization of the packaging process and to energy efficiency.

PACKAGING

In 2017, a strong focus was placed on reducing the environmental impacts in the packaging system in terms of purchasing recycled material and efficiency of the resources in the packaging process, thanks to the introduction of automatic boxing machines in the sorting lines within the production process.

In particular, 57% of plastic purchased this year was recycled plastic for industrial use, compared with 40% in 2016, and 100% of paper and cardboard for product packaging purchased was recycled paper and cardboard. In both cases, the Panariagroup is committed to the retrieval of waste materials which are recycled and reused.

Moreover, in recent years the company has acquired new automatic boxing machines which permit the use of cardboard during the packaging process to be optimized, thanks to the use of a thinner paper and cardboard and the reduction of waste. The machinery wraps the product, adjusting the size of the material used accordingly. This technology allows a reduction of up to 50% of cardboard used compared to previously used systems.

Finally, in 2017 there was a reduction in the use of wood thanks to a process of optimization of the palletizing system¹² which, in some cases, even allows double the quantity of finished products to be packed on a single pallet.

ENERGY EFFICIENCY

In line with the targets for environmental impact reduction and with the aim of reducing electricity consumption, the Panariagroup started a project for the replacement of all fluorescent neon lights used in the Italian plants. In 2017 the Finale Emilia plant finished the project by replacing neon lights with LED lights, registering through special meters an electrical energy saving of 50%.



5.2 Management of natural resources

Panariagroup chose to take a stand in defense 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, sustainable 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.

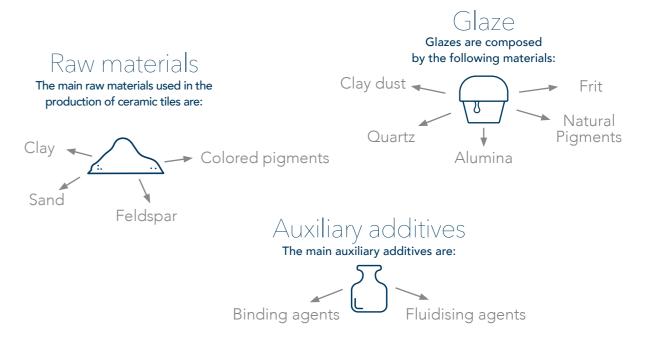
Applying its environmental policies, the Group regularly sets a series of targets to achieve in order to improve even further its environmental performance and to promote themes related to workplace safety and hygiene.

For the Italian and Portuguese plants, the specific details of these objectives are set out in the in the EMAS Environmental Report.

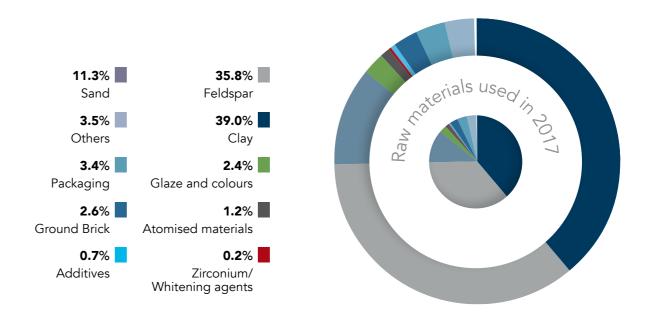
The Group's performance and objectives are set out annually in the Sustainability Report.

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

5.3 The raw materials



In the graph that follows are represented the main raw materials used by the Group in 2017. From it, it is possible to notice how most of the purchased materials are clay and feldspar.





In order to build a common future, our partners need to share our views.

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 atomization, 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 characterized 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.





5.5 Energy and emissions

The Panariagroup plants mainly use electricity, natural gas and diesel fuel. In 2017, the Group consumed a total of 3,069,211 GJ of energy, an increase on the previous year related to the increase in production volumes. 2,095 GJ was from renewable sources and 3,067,115 GJ from non-renewable sources. In general, there was an increased use of energy from all sources (electricity, natural gas, LPG). A significant increase was recorded for LPG due to the inclusion of figures for the factories in Portugal.

As a result of the increase in production recorded in 2017, the Group's environmental performance remained the same as that of the previous year, as reported by the energy intensity and emission indexes, highlighting the Group's strong focus on monitoring and minimization of environmental impacts, in particular related to energy consumption and emissions.

Year	Energy intensity (GJ/m²)
2016	0.137
2017	0.135

Year	Emission intensity (t CO_2/m^2)
2016	0.009
2017	0.009

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.

Emissions avoided in 2017 thanks to the photovoltaic installations in the Italian plants

Three photovoltaic systems were installed at the Italian plants of Finale Emilia, Fiorano Modenese and Sassuolo. They were individually 450 kWp with a surface of 4,200 m², 85 kWp with a surface of 1,000 m², 19.5 kWp with a surface of 220 m². The electric energy produced was for internal consumption and reduction of CO_2 emissions. Thanks to these systems, **the Group avoided emissions of 218 tons of CO_2 in 2017, an increase of 14% compared to 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 atomization 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 (wood flooring boards, natural stone, cork flooring), stoneware requires less energy to produce, also thanks to modern machinery and to its extremely high durability.

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.

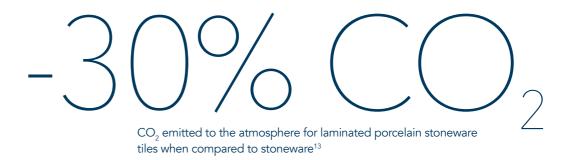
Indirect emissions: location based

$$\frac{60}{366} + \frac{10}{2}$$
Indirect emissions: market based
$$\frac{63}{104} + \frac{10}{2}$$



As mentioned about the increase in energy consumption, the increase in the emission of greenhouse gas in 2017 when compared to 2016 is linked to an increase in production.

It is important to notice how the production of laminated porcelain 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 porcelain stoneware with those created during the production of stoneware, we notice a relevant reduction in the CO₂ released.



^{13.} Values obtained from the elaboration of the Panariagroup EMAS data and the ICE and ECO-BAU database for porcelain stoneware, which include the energy consumption values for the extraction of raw materials (source: EPD of products of equal thickness).



The guiding principle is to see every environment as an environment Corrado Guidetti
PRODUCTION AND QUALITY
FINALE EMILIA PRODUCTION PLANT protection.

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. In 2017, the total water consumption of the production sites was 387,565 m3, an increase of 8% compared to 2016, as highlighted in the data published in the appendix.

This increase was mainly due to the increase in production. However, the Group is always attentive to minimize the environmental impacts originating from production activities. Taking into account the increase in production, water consumption remained stable compared to 2016.

Year	Water consumption index (m ³ /m ²)
2016	0.0169
2017	0.0171

It is important to highlight how the **Panariagroup production plants in Italy reutilize 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 reutilized during the process, thanks to specific technologies.

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 utilized 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 porcelain stoneware tiles produced by the Group – a fruit of the Group's commitment to research and innovation – requires an 80% lower amount of water than the production of stoneware tiles¹⁴.



^{14.} Values obtained from the elaboration of the Panariagroup EMAS data and the ICE and ECO-BAU database for porcelain stoneware, which include the energy consumption values for the extraction of raw materials (source: EPD of products of equal thickness).

5.7 Waste management

The waste produced in the Panariagroup's plants is assigned, for recovery or – in a minimal percentage – for land-fill disposal, to external agencies authorized according to the current laws.

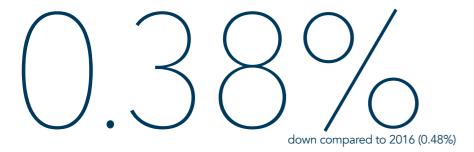
The management of the waste, during its temporary storing inside the plants, is made in dedicated areas created according to the current laws. The increase in the waste produced is due to the increase in production, and it mostly concerns sewage sludge.

In 2017, the Panariagroup registered 93,614 tons of waste produced, of which 286 tons were dangerous waste (0.31% of the total).

Waste	Italy	Portugal	US	Total
Recovery (t)	53,827	18,234	15,173	87,234
of which dangerous waste (t)	67	15	-	82
Disposal (t)	3,182	52	3,147	6,381
of which dangerous waste (t)	152	52	-	204
Percentage of dangerous waste	0.38%	0.37%	-	0.31%



Percentage of dangerous waste compared to the total waste produced by the Group in 2017



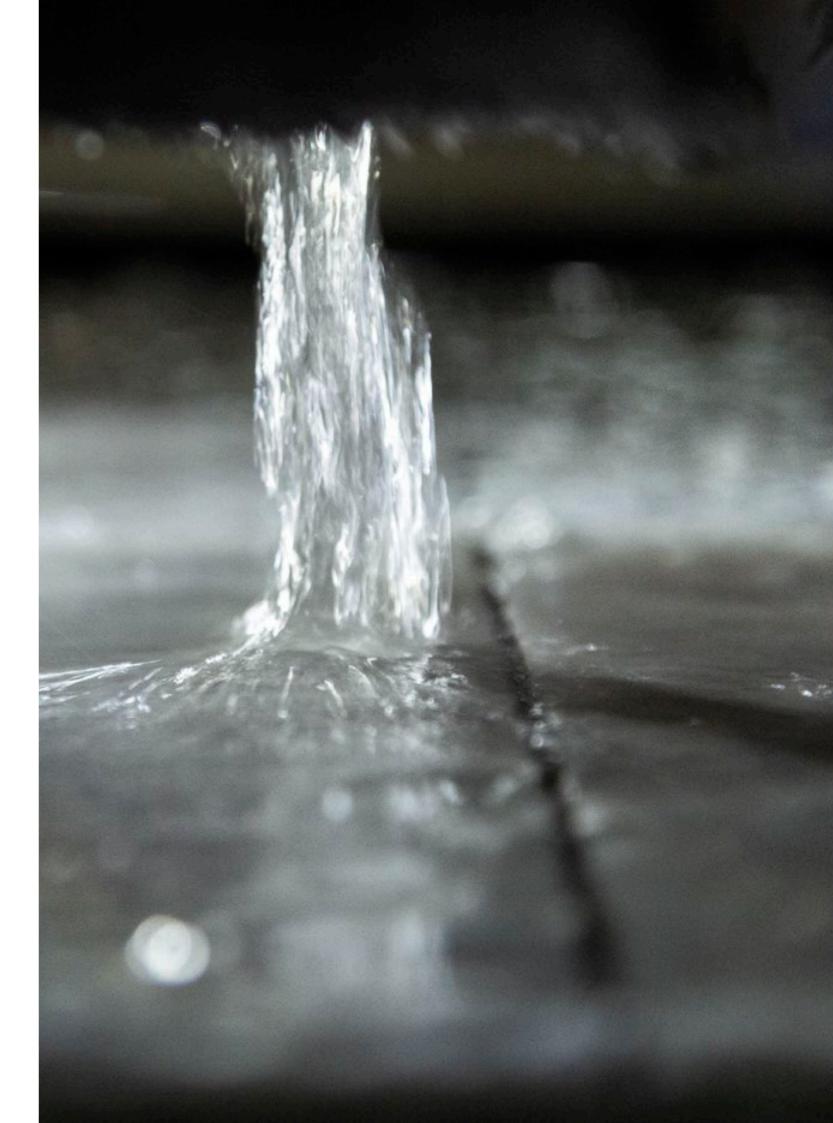
Most of the waste produced, about 87,234 tons including 82 tons of dangerous waste, **was destined for recovery.** In fact, 93% of waste produced was recovered, a very high percentage. By contrast, only a small part was destined for disposal. All data on waste management is shown in the appendix.

Taking into account the increase in production recorded in 2017, the Panariagroup did not register a significant increase in waste production, thanks to the high percentage of material recovered and the efficient use of raw materials throughout all the production processes.

As regards the production of sewage sludge, one of the main items on the list of waste produced by production plants, in 2017 an important environmental project was completed at the Toano site. Wastewater from departments for the preparation of pastes, for grinding and for glazing were previously sent to a physical-chemical purifier that made purified water, subsequently used in production, and ceramic sludge which, once filter pressed, were sent away for recovery.

Following the modification of the plant, the waste water is now collected in a tank positioned in the paste preparation department and is used as it is in wet milling inside the continuous drum mills, eliminating the purification phase. This modification led to a significant decrease in the production of waste (filtered sludge) sent to authorized external companies for material recovery. The Panariagroup is evaluating the possible extension of this modification to other Group production sites.

Percentage of waste sent for recovery compared to the total waste produced by the Group in 2017





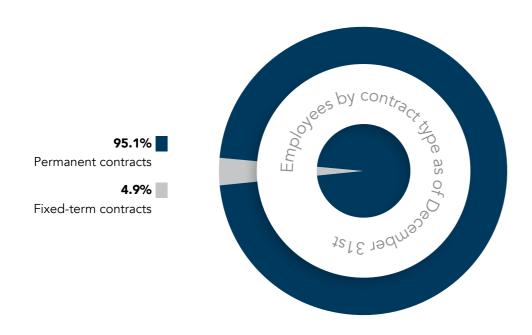
6.1 Our people

One of the core values of the Panariagroup is to always make **people and their quality of life the center of our attention** and to have the utmost respect for those who work with the Group.

It is precisely the people, their well-being, their growth and their professional development that is the key to the Panariagroup's success.

In the management of its employees, the **Panariagroup endorses a corporate culture able to attract the best talent**, improve people's skills and their ability to work in groups and recognize and reward their performance, with the ultimate goal of contributing to the their professional and personal satisfaction.

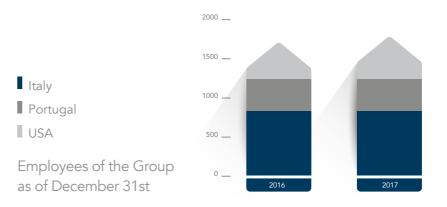
To guarantee the application of these principles, the Group almost exclusively employs permanent staff. This type of contract that guarantees employees more stability and greater opportunities for professional growth. At the same time, the Group takes into consideration requests from employees for part-time work, where possible offering job opportunities that fit their personal and professional needs.



Operating in a complex economic environment, the Panariagroup has decided until now to maintain stable employment levels and solid relations with the local communities in which it operates, **avoiding the option of outsourcing of production processes.** In fact, stability in relations with employees is a fundamental element in responsibly maintaining the Group's economic growth.

As of December 31, 2017, the Group employed 1,729 staff, up 2.6% on the previous year.

Employees of the Group as of December 31st 2017

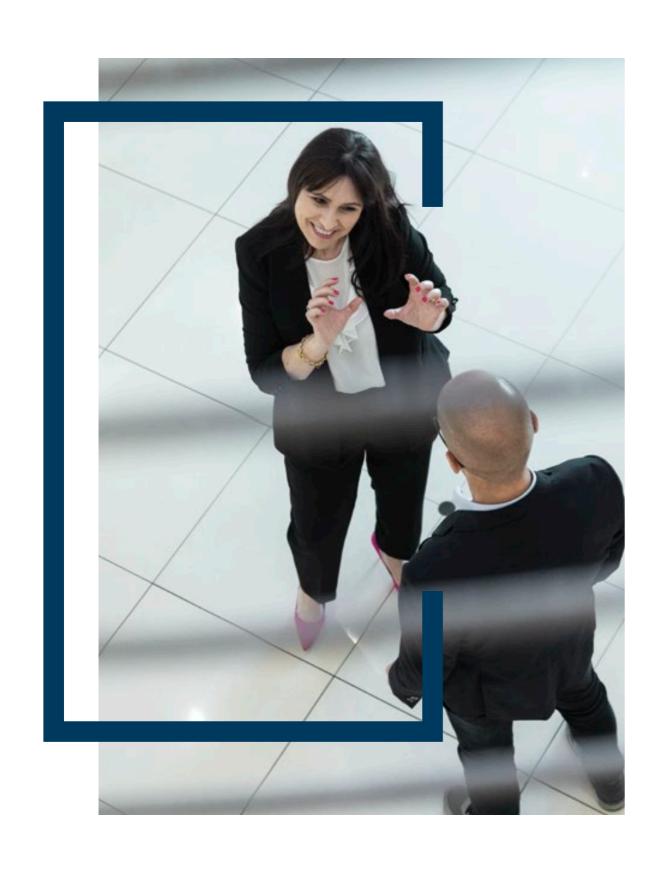


Against the background of a growing workforce, the Group's turnover between 2016 and 2017 remained almost stable. **The number of new employees increased**, particularly in the United States, in line with the development policy of the Group.

Inclusion and non-discrimination are two values considered fundamental for the Group's personnel management. These are basic parts of the tools used to develop each individual's talent, to help find a work-life balance and to safeguard diversity of culture, ethnicity, age, gender and skills.

The Panariagroup is committed to ensuring equal opportunities for employees and for those applying to become part of the organization. In all of the Group companies, respect for the individual and their religious and political and sexual orientation is encouraged and every kind of discrimination is discouraged. Diversity, tolerance and acceptance are our principles.

In particular, in the USA the "non-discrimination policy" and the "anti-harassment policy" have been adopted. In addition to the implementation of a reporting channel for any cases or issues concerning human resources or management, there are disciplinary measures for employees who violate internal policies and regulations.



When you see a new beautiful light in the eyes of the people around you, Rosa Novo HR DIRECTOR - GRES you've done the right thing.

tocus on:

the value of employees working in foreign plants

Creating a motivating work environment and a sense of community is one of the key objectives to make every single employee feel an integral part of the organization. To this effect, various initiatives and activities in the plants in Portugal and the USA were aimed at strengthening the sense of belonging and endorsing employees as key elements of the Group.

PORTUGAL

"The employee stood out..."

Every 4 months, Grès Panaria Portugal chooses the best employee, namely the one who has distinguished himself or herself for having achieved a certain goal, for having completed an important company project, or for merit. In addition, the employee of the year is elected at the Christmas party. These awards are communicated internally in the two Group's plants and are accompanied by a monetary bonus.

"Talking with..."

With the aim of increasing the sense of belonging within the Group, Grès Panaria Portugal is committed to employees' visibility and organizes interviews that are published within the internal communication channels (intranet, bulletin boards in the factory, internal publications) in which the interviewee describes their life, their career path, their hobbies, their expectations and so on. Over time, this initiative has led to the development of a greater sense of community within the Group.

"GPP Dav"

In order to have an opportunity for team building, Grès Panaria Portugal organizes one day every year aimed at all employees, in which fun activities have been carried out, group exercises with the aim of building and reinforcing a mutual sense of belonging among colleagues.

Apart from this, in 2017 a company climate survey was carried out to find out what employees think and to identify strengths and also areas where Grès Panaria Portugal can commit to improvement. The survey targeted employee feedback in 5 areas: Health and Safety, Environment, Internal Relations, Innovation and Quality, Recognition and Business Climate.

The main results highlighted the Group's strengths. Here the company's workers named the Environment, Quality and Innovation, while the company's managers named Work, People and Products for the company's managers. The areas for improvement that emerged were: respect, communications, equality and collaboration between employees.

USA

"Lunch & Learn"

Florida Tile offers the services of a nutritional expert from Edumedics Wellness free of charge to all its employees. In training sessions and private visits, it is possible to get advice on food and diet. However, the aim here is not just about finding a suitable diet, but also about finding out about a healthy, balanced lifestyle.

The "Edumedics Program"

The Edumedics Wellness plan gives Florida Tile staff the opportunity to take part in a special program designed to raise awareness of and to improve personal performance in important issues such as personal health, physical wellbeing, weight loss - as well as bad habits such as smoking. The program includes the option of visits and checks by a specially assigned, registered nurse.

Monthly Newsletter

With a monthly newsletter, Florida Tile is committed to sharing information on health and well-being, in order to raise awareness among its employees on specific topics such as breast cancer, the importance of checkups and ways to decrease the risk of developing it.



The Panariagroup has a work-life balance policy and provides the opportunity to access flexible working in the event of maternity or paternity. In addition, the Group strongly supports its employees, **especially at key moments in their lives, such as the birth of a child.** In 2017, 19 employees took parental leave, 8 were men and 11 were women. The rate of return to work after parental leave was 68% (100% for men and 45% for women).

In Italy, the Panariagroup paid particular attention to requests for part-time work, which were mainly for family obligations. As of December 31st 2017, 49 people were working on part-time contracts.

Concerning remuneration, the Group strongly endorses fair salaries for its employees, in line with the local legislation.

It is important to note that the Group respects the employees' rights to collective bargaining, in compliance with the International Labor Organization Conventions and always in compliance with local legislation. In 2017, in the Group collective bargaining had 70% coverage. In particular, in Italy, over the years, **supplementary company-level agreements have been developed that stipulate better employment terms than those guaranteed by national ones.**

Finally, it should be noted that in the event of any major organizational changes, the Group will comply with the provisions of collective agreements regarding proper notice.

The Group strongly supports its employees, especially at key moments in their lives, such as the birth of a child.

focus on: the italian welfare system

Mindful that people are the key to achieving economic, social and environmental objectives, the Panariagroup constantly endeavors to improve the well-being of those who work daily in the Group's factories and offices.

In this regard, this year the Panariagroup Italia has decided to renew its corporate welfare system with the aim of implementing benefits and providing services more suited to meeting the needs of employees. To this effect, the Group has extended its care not only to employees themselves, but also to their families, with the idea of providing "all-round" support for fundamental needs such as education, family and health.

Through a welfare system, the Group wants to guarantee its employees support not only in terms of money but also with further benefits. In Italy, the Group has devised a welfare system, in agreement with the employees' representatives with whom it actively maintains an ongoing dialogue. In 2016, meetings were started with the employees' representatives of all five Italian plants with the aim of renewing the additional contracts in which the services and benefits linked to the welfare system are defined.

Then in 2017 a company welfare plan based on the employee's choices was approved which establishes:

- a Complementary Pension;
- Integrative Health Care;
- Family Assistance for elderly or non-self-sufficient people;
- an annual amount for education and training;
- shopping vouchers;
- fuel vouchers for all employees who live more than 5 kilometers from their place of work (the value of these vouchers is calculated in proportion to the distance), excluding those who have company cars.

In addition, the welfare system also includes the company canteen service, aimed at all employees, with agreements with restaurants, canteens and bars near the plants and the distribution of special luncheon vouchers.

6.1.1 Training and development

In the materiality analysis employee training emerged as a crucial theme. Education and professional development are in fact fundamental aspects for the Group. The aims are developing skills and increasing knowledge, but also of ensuring compliance with national legislation and safety at work.

Training activities are not perceived by the Group as a mere legal obligation, but also as something beneficial to the company. For this reason, the Group companies analyze workers' specific needs on an annual basis, in order to guarantee the delivery of the training activities that are best suited to them and to the operational requirements.

Training activities on health and safety issues are provided throughout the Group, as required by local legislation. In addition, the Group also offers its employees a wide range of training activities identified by the managers in the different areas of operations, who are the most knowledgeable of the specific needs of both the employees themselves and of the skills required in their jobs.

In consideration of the concrete needs of employees with environmental responsibilities, training and events are planned and implemented in order to improve management skills.

Specifically, training courses on health and safety issues were carried out in the US facilities with the aim of limiting accidents, "ergonomic training" in the facilities to reduce the rate and severity of injury, specific training for the use of processing machinery with the aim of reducing accidents and possible damage caused by incorrect use and environmental training courses at the plant aimed at sensitizing employees towards reducing environmental impact.

In Portugal, in 2017, training initiatives were established for the development of technical skills for operations and skills for business activities, in commercial training areas such as, supply management, taxes, marketing, as well as for the development of soft skills such as foreign languages and behavioral skills. Furthermore, training activities were carried out on subjects related to the environment and health and safety in the workplace with the aim of improving the sensitivity and knowledge of employees. Based on a careful analysis of the training needs of the Grès Panaria Portugal Group, every year a training plan approved by the company management is set up. The average hours spent on training in 2017 were 2.7 in Italy (2.2 for women and 3 for men), in Portugal 8.5 (11.8 for women, 7.2 for men) and in USA 10.8 (9.7 for women and 11.2 for men).

With regard to incentives, in the supplementary company agreements in Italy (which are already operational), payment of a variable bonus to employees, linked to the Group's economic and financial results, is foreseen.

6.1.2 Employees health and safety

The Panariagroup pays close attention to issues related to health and safety in the workplace, which has also emerged as one of the fundamental aspects for both the Group and its stakeholders.

Panariagroup has implemented an integrated system of Quality, Environment, Hygiene and Safety Management in order to guarantee the protection and safety of its workers, one of the fundamental issues that emerged from the analysis of materiality, both from the perspective of the Group and its stakeholders.

In Italy, an environmental and safety management system has been developed in compliance with the ISO 9001, 14001, EMAS Regulations and the UNI INAIL guidelines with the aim of developing and implementing internal procedures aimed at preventing, monitoring and managing accidents and incidents at work. The main mechanisms adopted are:

- a log on the reduction of accidents;
- a list of best practices aimed at avoiding exposure to situations considered dangerous for some work processes;
- defining meetings between the main representatives of health and safety (the Italian RSPP and RLSSA roles and the doctor responsible) for the assessment of the negative impacts of some jobs on the health and safety of workers;
- periodic meetings for the prevention and protection from risks related to health and safety, as well as periodic meetings between RSPP and RLSSA aimed at keeping the main managers in the factories constantly informed;
- the risk assessment document in the workplace, set up according to the requirements of Italian Legislative Decree no. 81/08.



The Group acts decisively to raise staff awareness, through training and internal communications.

The Panariagroup also undertakes to communicate to all staff the importance of applying all safety procedures. As for Portugal, the Margres and Love Tiles plants have implemented an integrated quality, environmental and safety management system, certified according to ISO 9001, 14001 and EMAS, relating to quality and the environment. The safety management system follows the principles of the baseline for Occupational Health and Safety Management (the new ISO 45001). The main management tools are:

- workers' representatives for safety and health at work (Law 3/2014);
- an internal procedure for analyzing workplace risks;
- a program to improve health and safety conditions at work;
- programs to promote employee health;
- · internal training on safety and health at work;
- technical advice on safety and health at work;
- · monitoring of workplace risk factors for noise and inhalation of crystalline silica;
- internal verification of the minimum safety requirements for work equipment (Directive No. 2001/45 / EC);
- job analysis meetings, which include safety and health aspects;
- gymnastics at work for the prevention of musculoskeletal injuries;
- medical and nursing services at work (Law 3/2014);
- a procedure for the control of external service providers with regard to social aspects and health and safety at work.

With regard to the American company, at Florida Tile internal procedures are used to keep employees focused on good work practices, on the behavior necessary to avoid possibly dangerous situations or risks connected to work in the various departments. **Regular meetings are held with the aim of sharing correct procedures and behavior** among all employees and collecting reports in order to improve the working environment and the safety of the work locations.

There is also a doctor available to all employees. He/she advises not only on work-related illnesses but also on all subjects the employees may want to ask about.

The Group constantly monitors the injury indexes and **acts decisively to raise staff awareness**, through training and internal communications on aspects of safety at work and through appropriate training for newly hired employees (specific mentoring with expert personnel, adequate use of personal protective equipment, delivery of appropriate documentation on the subject).

In the Italian plants, after the update of the health and safety risk assessment document, no urgent and immediate risk situations were detected at the workplace. The risk analysis of the plants is always updated, in order to manage the issues related to safety and hygiene in the workplace promptly.

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.

The figures relating to the severity index and the frequency rate improved significantly compared with the already good results of the previous year.



6.2 Relations 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 behaviors 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 activities.** In this area, throughout 2017, the Portuguese Business Unit encouraged the participation of employees in some national and international "days" which focused on raising awareness of issues of common interest, such proper disposal of used batteries, sensible water consumption and the environment in general, responsible food chain management and safety at work, etc.

Value of products and money donated to local communities by the Group in 2017:



In the USA, Florida Tile was actively engaged with donations and solidarity activities to help support hospitals, associations helping the needy and sports associations. On some occasions, employees have also been directly involved: for example, some days dedicated to helping cancer patients were organized, where Florida Tile employees cooked for them and for those who look after them.

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 organizes every year the Douro Gran Fondo, a high level competition where amateur cyclists from all over the world compete, as well the enthusiasts from the Love Tiles Cycling Team.

The Group is also a partner of the Maratona dles Dolomites-ENEL, an amateur cycling competition in 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**: in particular, thanks to this initiative, employees can go to the stadium to enjoy great football for free.

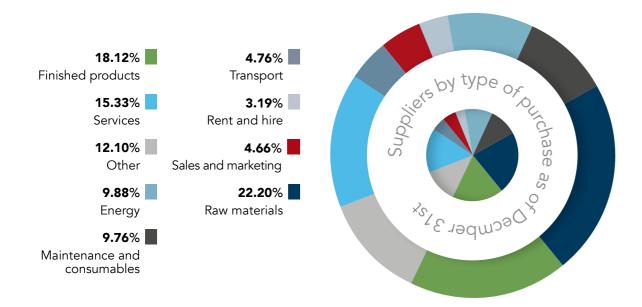


6.3 Responsible supply chain management

The Panariagroup aims to strengthen relations with its suppliers so as to jointly create a system committed to sustainability throughout the whole value chain.

To this end, the Group, aware of the importance of social and environmental responsibility of its suppliers, has taken a commitment to start the integration of sustainability as a factor in the selection and management of its suppliers. In 2017 no new suppliers were evaluated using social and environmental criteria, but for 2019 the Group has targeted the introduction of a system for assessing new suppliers using social and environmental criteria, also linked to respecting human rights and workers.

The Group's suppliers¹⁵ are mainly "Primary Suppliers", from whom the Panariagroup purchases raw materials, finished products and services for the main production activities, and "Other Suppliers" that deliver energy, maintenance and transport services and other activities and goods for company operations.



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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;
- Pri
- 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.

Moreover, as regards supply chain monitoring, through a contractual clause the Panariagroup requires all its Italian suppliers and contractors to accept the standards of conduct defined by the Group's MOG.231 / 01 (the Italian Organizational, Management and Control model as per Legislative Decree no. 231 of 2001 regarding the administrative responsibility of companies and institutions) and whose compliance by the supplier is verified by on-site visits carried out by the Group's Purchasing department.

Specifically, particular importance is given to suppliers of raw materials, both as the Group's main suppliers and the type of work involved, being mining activities, produce an environmental impact which is considered substantial.

So, the Group monitors the suppliers' management of the quarries from which the raw materials are extracted, with inspection visits (audits) carried out on site at the suppliers' locations by the Purchasing Department personnel or by qualified technicians. During these audits, the methods for extracting materials, for managing and monitoring the environmental impact generated, and for performing subsequent laboratory analyzes are checked.

In Portugal, suppliers of raw materials are evaluated using the results from questionnaires sent to them.

For 2019 the Group has targeted the introduction of a system for assessing new suppliers using **social** and environmental criteria, also linked to respecting human rights and workers.

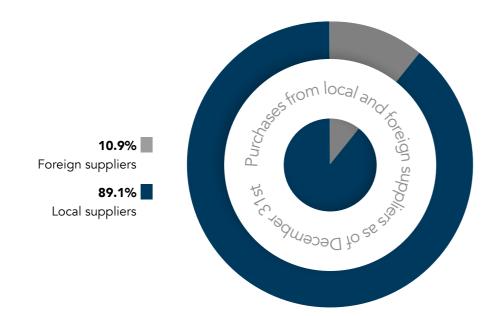
^{15.} The percentage of suppliers in the respective categories is calculated on the basis of the expenditure by type of purchase. Costs for commissions for the entire operating area were excluded from the calculation.

In the USA, the Group added to the supply contracts **specific sustainability clauses** linked to environmental and social aspects.

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 formalize 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 authorized 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.

Panariagroup recognizes 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 a special 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.

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.



Environmental data

For 2017, the environmental data refers to all production sites and storage centers. Excluded are the sales offices, the retail outlet Montanari Ceramiche s.r.l., Lea North America LLC. and the product marketing offices of the Panariagroup US Inc. that do not generate an environmental impact considered significant.

The 2016 environmental data relating to the Italian plants were reassessed to include the new storage centers at Sassuolo and Casalgrande.

Environmental data on electricity, natural gas, LPG, diesel and petrol use have been reassessed taking into account the updated emission and conversion coefficients (in GJ), as shown at the end of this paragraph on environmental data, with the aim of making them easier to compare with the 2017 figures.

ENERGY PRODUCTION

PRODUCTION OF ELECTRICITY

	2		2017					
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Production of electricity (kWh)	510,829	-	-	510,829	582,066	-	-	582,066
Production of electricity (GJ)	1,839	-	-	1,839	2,095	-	-	2,095
CO ₂ emissions avoided (t)	192	-	-	192	218	-	-	218

ENERGY CONSUMPTION

TOTAL ENERGY CONSUMPTION

	2	016				2017	7	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Total energy consumption (GJ)	1,560,879	829,654	514,308	2,904,840	1,674,108	829,955	565,147	3,069,211
Of which								
From renewable sources (GJ)	1,839	-	-	1,839	2,095	-	-	2,095
From non-renewable sources (GJ)	1,559,040	829,654	514,308	2,903,001	1,672,013	829,955	565,147	3,067,115
Energy intensity (GJ/sm)	0.139	0.129	0.142	0.137	0.137	0.130	0.138	0.135

NATURAL GAS CONSUMPTION

		201	6		201	17		
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Natural gas consumption (Sm³)	36,382,764	19,242,202	12,089,538	67,714,504	39,279,690	19,153,583	12,793,786	71,227,059
Natural gas consumption (GJ)	1,278,272	676,056	424,754	2,379,081	1,380,053	672,942	449,497	2,502,491
CO ₂ emissions (t)	71,456	37,792	23,744	132,991	77,145	37,618	25,127	139,890

ELECTRICITY CONSUMPTION

		2	2016		2	2017		
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Electricity consumption (kWh)	75,043,584	41,974,356	24,348,020	141,365,960	77,441,344	42,965,297	32,020,800	152,427,441
Electricity consumption (GJ)	270,157	151,108	87,653	508,917	278,789	154,675	115,275	548,739
CO ₂ emissions (t)	28,141	16,370	11,078	55,590	29,041	16,756	14,569	60,366

LPG CONSUMPTION

	2016				2017			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
LPG consumption (m³)	-	-	28	28	-	628	42	670
LPG consumption (GJ)	-	-	3	3	-	67	4	72
CO ₂ emissions (t)	-	-	0.2	0.2	-	4.4	0.3	4.7

CONSUMPTION FOR FREIGHT HAULING

		2	016			2	017	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Diesel fuel (I)	295,242	69,296	46,288	410,826	365,708	63,033	34,542	463,282
Diesel fuel (GJ)	10,611	2,490	1,664	14,765	13,143	2,265	1,241	16,650
Petrol (I)	-	-	7,404	7,404	-	-	5,220	5,220
Petrol (GJ)	-	-	235	235	-	-	165	165
Diesel fuel CO ₂ emissions (t)	781	183	123	1,087	968	167	91	1,226
Petrol CO ₂ emissions (t)	-	-	17	17	-	-	12	12
CO ₂ total emissions (t)	781	183	140	1,105	968	167	104	1,238

EMISSIONS

TOTAL CO₂ EMISSIONS

		2016			2017			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Direct emissions - Scope 1 (tCO ₂) Energy	72,237	37,975	23,884	134,096	78,113	37,789	25,231	141,133
Direct emissions - Scope 1 (tCO ₂) Materials	793	3,778	-	4,571	573	4,031	281	4,885
Direct emissions - Scope 1 (tCO ₂) Total	73,030	41,753	23,884	138,667	78,686	41,819	25,512	146,018
Indirect emissions - Scope 2 (tCO ₂) Local Based	28,141	16,370	11,078	55,590	29,041	16,756	14,569	60,366
Indirect emissions - Scope 2 (tCO ₂) - Market Based	34,904	12,139	11,078	58,121	36,019	12,426	14,569	63,014
Total emissions intensity - Scope1+2 (tCO ₂ /sm)	0.009	0.009	0.010	0.009	0.009	0.009	0.010	0.009

NOx, SOx AND OTHER POLLUTANT EMISSIONS

	2017
t/YEAR	
109	NOx
43	SOx
6	Persistent organic pollutants (POP)
30	Volatile organic compounds (VOC)
-	Hazardous air pollutants (HAP)
80	Particulate matter (PM)
150	Other standard categories of air emissions identified in relevant regulations

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	375				
Portugal	390	0.001964	3.026	3.151	3.14
US	455				

				Ministry	
		Ministry	Ministry	of the Environment	Ministry
		of the Environment	of the Environment	and of the Protection	of the Environment
	TERNA, Confronti	and of the Protection	and of the Protection	of Land and Sea, Tabella	and of the Protection
Source	Internazionali, 2015	of Land and Sea,	of Land and Sea,	Parametri Standard	of Land and Sea,
	internazionali, 2015	Tabella Parametri	Tabella Parametri	Nazionali, 2017 and	Tabella Parametri
		Standard Nazionali,	Standard Nazionali,	National Inventory Report	Standard Nazionali,
		2017	2017	2017 (for diesel fuel)	2017

LOWEST HEATING POWER OF COMBUSTIBLES	PCI
Natural Gas (GJ/Smc)	0.035134
LPG (GJ/ton)	46.141
Diesel fuel (GJ/ton)	42.785
Petrol (GJ/ton)	42.817

Ministry of the Environment and of the Protection of Land and Sea, Tabella Parametri Standard Nazionali, 2017 and National Inventory Report 2017 (for diesel fuel) WATER

WATER FROM WELLS AND MAINS SUPPLY

	2016						2017			
	IT	PT	US	TOTAL	IT*	PT	US	TOTAL		
Total water consumption (m³)	180,673	151,625	32,596	364,894	190,829	151,350	45,467	387,645		
- of which from wells (m³)	165,759	147,753	-	313,512	178,237	147,035	-	325,272		
- of which mains water (m³)	14,914	3,872	32,596	51,382	12,592	4,315	45,467	62,373		
Intensity of water consumption (m³/m²)	0.016	0.024	0.009	0.017	0.016	0.024	0.011	0.017		

 $[\]mbox{\ensuremath{\star}}$ The figures do not include water consumption in the Casalgrande storage center.

RECYCLED AND RE-USED WATER*

		20	016		2017			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Recycled and re-used water total (m³)	206,456	89,329	12,206	307,991	202,714	126,439	14,723	343,877

^{*} The figure relating to 2016 for re-cycled and re-used water has been re-stated to be more consistent with the other data.

WASTE WATER DISCHARGE

2016							2017	
	IT	PT	US*	TOTAL	IT	PT	US	TOTAL
Waste water discharge (m³)	-	41,354	9,770	51,124	-	34,140	10,844	44,984

 $[\]mbox{\ensuremath{^{\star}}}$ The figures for 2016 US has been re-stated to be more consistent with the other data.

WASTE

WASTE BY TREATMENT

	2016						2017			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL		
Recovered/recycled (t)	49,803	16,105	193	66,101	53,827	18,234	15,173	87,234		
Of which dangerous (t)	148	11		159	67	15	-	82		
Disposal (t)	3,310	53	2,581	5,944	3,182	52	3,147	6,381		
Of which dangerous (t)	109	-	-	162	152	52	-	204		
Percentage of dangerous waste	0.48%	0.40%	0.00%	0.4%	0.38%	0.37%	0.00%	0.31%		

PRODUCTION FIGURES

		2	2016		2017			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Surface area of tiles produced (m²)	11,203,095	6,433,397	3,629,219	21,265,711	12,202,884	6,389,720	4,098,111	22,690,715
Metric tons of tiles produced (t)	262,117	127,732	72,066	461,915	297,003	128,235	81,367	506,605

Source

7.2

Human resources data

The 2016 figures relating to Human Resources were revised to include the following companies: Panariagroup USA Inc.; Lea North America LLC. and Montanari Ceramiche S.r.I.

EMPLOYEES

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EMPLOYEES BY NATION, GENDER AND CONTRACT TYPE AS OF DECEMBER 31ST

	20	16		2017			
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
ITALY	512	279	791	516	278	794	
Permanent employees	506	276	782	505	272	777	
Fixed term contract employees	6	3	9	11	6	17	
PORTUGAL	278	114	392	306	119	425	
Permanent employees	248	107	355	252	107	359	
Fixed term contract employees	30	7	37	54	12	66	
US	359	144	503	352	158	510	
Permanent employees	359	144	503	352	156	508	
Fixed term contract employees	-	-	-	-	2	2	
TOTAL	1,149	537	1,686	1,174	555	1,729	
Permanent employees	1,113	527	1,640	1,109	535	1,644	
Fixed term contract employees	36	10	46	65	20	85	

PART-TIME AND FULL TIME EMPLOYEES BY GENDER AS OF DECEMBER 31ST

		2016		2017			
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
ITALY	512	279	791	516	278	794	
Full time	506	237	743	509	236	745	
Part time	6	42	48	7	42	49	
PORTUGAL	278	114	392	306	119	425	
Full time	278	114	392	306	119	425	
Part time	-	-	-	-	-	-	
US	359	144	503	352	158	510	
Full time	359	141	500	350	156	506	
Part time	-	3	3	2	2	4	
TOTAL	1,149	537	1,686	1,174	555	1,729	
Full time	1,143	492	1,635	1,165	511	1,676	
Part time	6	45	51	9	44	53	

EMPLOYEES BY CONTRACT LEVEL* AND GENDER AS OF DECEMBER 31ST

	2016			2017			
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
ITALY							
Senior Managers	36	-	36	39	-	39	
White collars	155	107	262	164	108	272	
Blue collars	321	172	493	313	170	483	
TOTAL	512	279	791	516	278	794	
PORTUGAL							
Senior Manager	11	3	14	11	3	14	
White collars	42	45	87	37	51	88	
Blue collars	225	66	291	258	65	323	
TOTAL	278	114	392	306	119	425	
US							
Senior Managers	21	3	24	18	6	24	
White collars	125	105	230	112	116	228	
Blue collars	213	36	249	222	36	258	
TOTAL	359	144	503	352	158	510	
GROUP							
Senior Managers	68	6	74	68	9	77	
White collars	322	257	579	313	275	588	
Blue collars	759	274	1,033	793	271	1,064	
TOTAL	1,149	537	1,686	1,174	555	1,729	

^{*}The contract level classifications have been restated for greater homogeneity between the three countries.

EMPLOYEES BY CONTRACT LEVEL* AND AGE AS OF DECEMBER 31ST

		2016				2017		
	<30	30-50	>50	TOTAL	<30	30-50	>50	TOTAL
ITALY								
Senior Managers	-	20	16	36	-	18	21	39
White collars	10	200	52	262	13	196	63	272
Blue collars	10	300	183	493	8	274	201	483
TOTAL	20	520	251	791	21	488	285	794
PORTUGAL								
Senior Managers	-	11	3	14	-	11	3	14
White collars	6	65	16	87	8	65	15	88
Blue collars	22	172	97	291	28	190	105	323
TOTAL	28	248	116	392	36	266	123	425
US								
Senior Managers	1	13	11	25	-	13	11	24
White collars	35	129	74	238	22	133	73	228
Blue collars	51	125	73	249	51	135	72	258
TOTAL	87	267	158	512	73	281	156	510
GROUP								
Senior Managers	1	44	30	75	-	42	35	77
White collars	51	394	142	587	43	394	151	588
Blue collars	83	597	353	1,033	87	599	378	1,064
TOTAL	135	1.035	525	1,695	130	1.035	564	1,729

^{*}The contract level classifications have been reduced to the three for the purpose of greater homogeneity.

	2016			2017			
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
ITALY							
Senior Managers	-	-	-	-	-	-	
White collars	1	1	2	1	1	2	
Blue collars	17	10	27	20	10	30	
TOTAL	18	11	29	21	11	32	
PORTUGAL							
Senior Managers	-	-	-	-	-	-	
White collars	-	-	-	-	-	-	
Blue collars	-	-	-	-	-	-	
TOTAL	-	-	-	-	-	-	
US							
Senior Managers	-	-	-	-	-	-	
White collars	1	-	1	2	-	2	
Blue collars	-	-	-	-	-	-	
TOTAL	1	-	1	-	-	-	
GROUP							
Senior Managers	-	-	-	-	-	-	
White collars	2	1	3	3	1	4	
Blue collars	17	10	27	20	10	30	
TOTAL	19	11	30	23	11	34	

 $[\]star$ The definition of a protected class is according to the local laws of each individual country.

BOARD OF DIRECTORS BY AGE AS OF DECEMBER 31ST 2017

	40-50	51-60	>61
Emilio Mussini		•	
Paolo Mussini		•	
Andrea mussini		•	
Giuliano Pini			•
Giuliano Mussini			•
Silvia Mussini		•	
Daniele Prodi		•	
Sonia Bonfiglioli		•	
Ferrari Tiziana	•		
Francesca Bazoli	•		

EMPLOYEE NEW HIRES* BY GENDER AND AGE

MEN	WOMEN				
		TOTAL	MEN	WOMEN	TOTAL
9	4	13	5	-	5
9	2	11	11	3	14
1	-	1	2	1	3
19	6	25	18	4	22
3.7%	2.2%	3.2%	3.5%	1.4%	2.8%
6	-	6	18	3	21
4	5	9	17	5	22
1	-	1	1	1	2
11	5	16	36	9	45
4.0%	4.4%	4.1%	11.8%	7.6%	10.6%
51	17	68	41	9	50
78	25	103	72	40	112
11	8	19	15	3	18
140	50	190	128	52	180
39.0%	34.7%	37.8%	36.4%	32.9%	35.3%
66	21	87	64	12	76
91	32	123	100	48	148
13	8	21	18	5	23
170	61	231	182	65	247
14.8%	11.4%	13.7%	15.5%	11.7%	14.3%
	9 1 19 3.7% 6 4 1 11 4.0% 51 78 11 140 39.0% 66 91 13 170	9 2 1 - 19 6 3.7% 2.2% 6 - 4 5 1 - 11 5 4.0% 4.4% 51 17 78 25 11 8 140 50 39.0% 34.7% 66 21 91 32 13 8 170 61	9 2 11 1 - 1 19 6 25 3.7% 2.2% 3.2% 6 - 6 4 5 9 1 - 1 11 5 16 4.0% 4.4% 4.1% 51 17 68 78 25 103 11 8 19 140 50 190 39.0% 34.7% 37.8% 66 21 87 91 32 123 13 8 21 170 61 231	9 2 11 11 1 - 1 2 19 6 25 18 3.7% 2.2% 3.2% 3.5% 6 - 6 18 4 5 9 17 1 - 1 1 11 5 16 36 4.0% 4.4% 4.1% 11.8% 51 17 68 41 78 25 103 72 11 8 19 15 140 50 190 128 39.0% 34.7% 37.8% 36.4% 66 21 87 64 91 32 123 100 13 8 21 18 170 61 231 182	9 2 11 11 3 1 - 1 2 1 19 6 25 18 4 3.7% 2.2% 3.2% 3.5% 1.4% 6 - 6 18 3 4 5 9 17 5 1 - 1 1 1 11 5 16 36 9 4.0% 4.4% 4.1% 11.8% 7.6% 51 17 68 41 9 78 25 103 72 40 11 8 19 15 3 140 50 190 128 52 39.0% 34.7% 37.8% 36.4% 32.9% 66 21 87 64 12 91 32 123 100 48 13 8 21 18 5 170 61 231 182 65

^{*}Data on new hires does not include seasonal personnel and intra-group transfers.

^{**}New employee hires as % of total is calculated using the end of year figures.

EMPLOYEE TERMINATIONS* BY GENDER AND AGE

	2016				2017	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY						
Age <30 years	-	-	-	1	1	2
Age 30-50 years	9	11	20	9	2	11
Age > 50 years	2	6	8	4	1	5
Total	11	17	28	14	4	18
Employee terminations as a % of total	2.1%	6.1%	3.5%	2.7%	1.4%	2.3%
PORTUGAL						
Age <30 years	2	-	2	3	-	3
Age 30-50 years	4	-	4	5	3	8
Age > 50 years	3	6	9	-	1	1
Total	9	6	15	8	4	12
Employee terminations as a % of total	3.2%	5.3%	3.8%	2.6%	3.4%	2.8%
us						
Age <30 years	37	12	49	38	12	50
Age 30-50 years	57	11	68	74	27	101
Age > 50 years	12	9	21	14	6	20
Total	106	32	138	126	45	171
Employee terminations as a % of total	30.1%	20.3%	27.1%	35.8%	28.5%	33.5%
GROUP						
Age <30 years	39	12	51	42	13	55
Age 30-50 years	70	22	92	88	32	120
Age > 50 years	17	21	38	18	8	26
Total	126	55	181	148	53	201
Employee terminations as a % of total**	11.0%	10.2%	10.7%	12.6%	9.5%	11.6%

 $[\]star$ The data for employee terminations does not include seasonal personnel and intra-group transfers.

PARENTAL LEAVE

PARENTAL LEAVE 2016*

	I	Т			PT		l	JS		Т	OTAL	
	MEN W	OMEN	TOTAL	MEN V	VOMEN	TOTAL	MEN WO	OMEN	TOTAL	MEN V	VOMEN	TOTAL
Total number of parental leaves during the year	1	7	8	13	4	17	-	-	-	14	11	25
Of which:												
Total number of employees that returned to work in the reporting period after parental leave ended	1	2	3	10	3	13	-	-	-	11	5	16
Total number of employees as of December 31st that were still on parental leave	-	5	5	3	1	4	-	-	-	3	6	9
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work	-	4	4	13	4	17	-	-	-	13	8	21
Return to work rate	100%	29%	38%	77%	75%	76%	-	-	-	79%	45%	64%
Retention rate	0%	57%	50%	100%	100%	100%	_	-	-	93%	73%	84%

^{*}The figures refer to parental leave of at least 30 days.

PARENTAL LEAVE 2017*

	IT	Γ			PT			US		Т		
	MEN W	OMEN	TOTAL	MEN V	VOMEN	TOTAL	MEN V	VOMEN	TOTAL	MEN V	VOMEN	TOTAL
Total number of parental leaves during the year	-	4	4	8	3	11	-	4	4	8	11	19
Of which:												
Total number of employees that returned to work in the reporting period after parental leave ended	-	2	2	8	1	9	-	2	2	8	5	13
Total number of employees as of December 31st that were still on parental leave	-	2	2	-	2	2	-	2	2	-	6	6
Total number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work	1	2	3	8	3	11	-	-		9	5	14
Return to work rate	-	50%	50%	100%	33%	82%	-	50%	50%	100%	45%	68%
Retention rate	-	50%	75%	100%	100%	100%	-	0%	0%	113%	45%	74%

^{*} The figures refer to parental leave of at least 30 days.

^{**}Employee terminations as a % of total is calculated using the end of year figures.

TRAINING

AVERAGE HOURS OF TRAINING PER EMPLOYEE CATEGORY 2016*

			IT						P.	Т			US
		MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	n.	average	n.	average	n.	average	n.	average	n.	average	n.	average	
Senior Managers	16	0.4	-	0	16	0.4	358	32.5	489	163	847	60.5	Not
White collars	92	0.6	-	0	92	0.4	1,851	44.1	2,053	45.6	3,904	44.9	available
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 professional classifications have been reorganized for of greater comparability with 2017.

AVERAGE HOURS OF TRAINING PER EMPLOYEE CATEGORY 2017

		Γ	Т						F	PT						US		
		MEN	W	OMEN		TOTAL		MEN	V	/OMEN		TOTAL		MEN	٧	VOMEN		TOTAL
	n. a	verage	n. a	verage	n.	average	n. a	average	n.	average	n.	average	n. a	average	n.	average	n. a	average
Senior Managers	77	2.0	-	0.0	77.0	2.0	131.5	11.9	318	106.0	448.5	32.0	9	0.5	0.0	0.0	9.0	0.4
White collars	436	2.7	53	0.49	489	1.8	747	20.2	897	17.6	1,644	18.7	1,999	17.8	1,179	10.2	3,178	13.9
Blue collars	1,024	3.3	564	3.32	1,588	3.3	1,328.5	5.1	191	2.9	1,519.5	4.7	1,946	8.8	359	10.0	2,305	8.9
TOTAL	1,537	3.0	617	2.2	2,154	2.7	2,206	7.2	1,406	11.8	3,612	8.5	3,954	11.2	1,538	9.7	5,492	10.8

OCCUPATIONAL DISEASE AND ABSENTEEISM

OCCUPATIONAL DISEASE AND ABSENTEEISM 2016*

		IT			PT			US**			GROUP	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Absence (days)	8,533	7,279	15,812	1,594	1,935	3,529	1,146	21	1,167	11,273	9,235	20,508
Occupational Diseases (days)	2	1	3	2	-	2	N/A	N/A	N/A	4	1	5
Possible working hours	1,005,065	514,346	1,519,411	578,229	237,115	883,983	791,648	324,896	1,116,544	2,433,181	1,086,757	3,519,938
Hours worked	860,924	397,059	1,257,983	512,701	197,787	710,488	698,578	285,335	983,913	2,072,203	880,181	2,952,384
Possible working days	125,933	64,353	190,286	72,279	29,639	101,918	89,990	36,920	126,910	295,481	132,212	427,694
Occupational disease rate (*100,000)	0.2	0.3	0.2	0.4	0.0	0.3	N/A	N/A	N/A	0.2	0.1	0.2
Absence rate (*100,000)	67.76	113.11	83.10	22.05	65.27	31.93	12.73	0.57	9.20	38.15	69.85	47.95

^{*} The figure relating to absences includes only absences due to accidents and occupational diseases.

OCCUPATIONAL DISEASE AND ABSENTEEISM 2017*

		IT			PT			US			GROUP	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Absence (days)	7,429	7,518	14,947	2,019	1,134	3,153	140	2	142	9,588	8,654	18,243
Occupational diseases (days)	1	-	1	1	-	1		-	-	2	-	2
Possible working hours	1,007,513	507,813	1,515,325	648,948	255,835	904,783	802,915	285,861	1,088,776	2,459,375	1,049,509	3,508,884
Hours worked	863,673	391,766	1,255,439	563,010	209,205	772,215	801,795	285,845	1,087,640	2,228,477	886,816	3,115,294
Possible working days	126,239	63,657	189,896	81,118	31,719	112,838	100,385	35,700	136,085	307,743	131,076	438,819
Occupational disease rate (*100,000)	0.1	0.0	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1
Absence rate (*100,000)	58.85	118.11	78.71	24.89	35.75	27.95	1.39	0.06	1.04	31.16	66.03	41.57

 $[\]mbox{\ensuremath{^{\star}}}$ The figure relating to absences includes only absences due to accidents and occupational diseases.

INJURY RATE AND SEVERITY INDEX

INJURY RATE AND SEVERITY INDEX 2016

		IT MEN WOMEN TOTA			PT			US*			GROUP	
	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	1,005,065	514,346	1,519,411	578,229	237,115	815,344	791,648	324,896	1,116,544	2,374,942	1,076,357	3,451,299
Worked hours	860,924	397,059 <i>°</i>	1,257,983	512,701	197,787	710,488	698,578	285,335	983,913	2,072,203	880,181	2,952,384
Possible working days	125,933	64,353	190,286	72,279	29,639	101,918	89,990	36,920	126,910	288,202	130,912	419,114
Lost day rate (*100,000)	83.2	87.5	84.6	80.6	146.3	99.7	110.4	6.2	80.1	91.6	75.9	86.7
Injury rate (*100,000)	3.8	5.3	4.3	3.7	5.6	4.2	1.4	1.1	1.3	3.0	4.0	3.3

^{**}For 2016, it was not possible to include occupational diseases and absences for Panariagroup USA Inc and Lea North America LLC.

INJURY RATE AND SEVERITY INDEX 2017

		IT			PT			US			GROUP	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Injuries	36	19	55	25	6	31	7	1	8	68	26	94
of which ongoing	1	1	2	2	-	2	-	-		3	1	4
of which, on the workplace	35	18	53	23	6	29	7	1	8	65	25	90
Deadly injuries	-	-	-	-	-	-	-	-	_	-	-	-
Working days los	t 578	465	1,043	512	95	607	140	2	142	1,230	562	1,792
Workable hours	1,007,513	507,813	1,515,325	648,948	255,835	904,783	802,915	285,861	1,088,776	2,459,375	1,049,509	3,508,884
Worked hours	863,673	391,766	1,255,439	563,010	209,205	772,215	801,795	285,845	1,087,640	2,228,477	886,816	3,115,294
Possible working days	126,239	63,657	189,896	81,118	31,719	112,838	100,385	35,700	136,085	307,743	131,076	438,819
Lost day rate (*100,000)	57.4	91.6	68.8	78.9	37.1	67.1	17.4	0.7	13.0	50.0	53.5	51.1
Injury rate (*100,000)	4.2	4.8	4.4	4.4	2.9	4.0	0.9	0.3	0.7	3.1	2.9	3.0

LOCALLY HIRED MANAGEMENT

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY 2016

		IT			PT			US	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Senior manager	36	-	36	11	3	14	20	3	23
of whom hired locally	36	-	36	11	3	14	16	2	18
% locally hired management	100%	-	100%	100%	100%	100%	80%	67%	78%

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY 2017

		IT			PT			US	
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Senior manager	39	-	39	11	3	14	18	6	24
of whom hired locally	39	-	39	11	3	14	13	5	18
% locally hired management	100%	-	100%	100%	100%	100%	72%	83%	75%

COLLECTIVE BARGAINING AGREEMENTS

NUMBER AND PERCENTAGE OF TOTAL EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS AS OF DECEMBER 31ST

		201	6			201	7	
	IT	PT	US	TOTAL	IT	PT	US*	TOTAL
Employees covered by collective bargaining	791	389	-	1,180	794	415	-	1,209
Percentage	100%	99%	0%	70%	100%	98%	0%	70%

^{*} No collective bargaining agreement is in force in the USA

STANDARD SALARY FOR NEW HIRES IN EUROS

RATIOS OF STANDARD ENTRY LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE IN 2017

			2016						2017	7		
	IT		PT		US	**		Γ	PT		US	;**
	MEN \	WOMEN	MEN W	VOMEN	MEN	WOMEN	MEN	WOMEN	MEN W	/OMEN	MEN	WOMEN
Minimum local gross local wage permitted by law*	1,516	1,516	505	505	1,332.28	1,363.13	1,539.49	1,539.49	557	557	1,378.11	1,093.09
Minimum gross salary for new hires**	1,516	1,516	530	530	2,140.83	2,190.42	1,539.49	1,539.49	567	567	2,281.01	1,816.79
Ratio between the standard new hire and the local minimum salary, by gender	1.00	1.00	1.05	1.05	1.61	1.61	1.00	1.00	1.02	1.02	1.66	1.66

^{*}Minimum local gross wage permitted by law: the figure is estimated on the basis of the minimum hourly wage set by national legislation.

^{**}Minimum gross salary for new hires: the figure is calculated according to the job offer letter for the lowest employment level.

7.3 Supply chain data

LOCAL SUPPLIERS

PROPORTION OF SPENDING ON LOCAL SUPPLIERS (millions of euros)

		201	6			201	17	
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Local suppliers	116	41	6	164	118	43	77	238
All suppliers	126	54	26	206	122	54	91	267
% from local suppliers	92%	76%	24%	79%	97%	80%	85%	89%

MATERIALS

MATERIALS USED BY WEIGHT (t)

	2016					2017	,	
	IT	PT*	US	TOTAL	IT	PT	US	TOTAL
CLAY	123,394	81,668	33,203	238,265	136,035	82,381	38,581	256,997
FELDSPAR	110,748	56,670	37,697	205,114	126,181	57,032	52,524	235,737
SAND	49,836	10,650	10,994	71,480	54,151	9,797	10,319	74,267
GLAZES and COLORS	8,357	240	2,794	11,392	9,083	4,711	1,931	15,725
ATMOSIED	11,220	-	-	11,220	7,664	-	-	7,664
ZIRCONIUM/ WHITENING AGENT	484	322	-	806	772	284	214	1,270
ADDITIVES	2,404	938	-	3,342	2,733	1,001	551	4,285
GROUND FIRED MATERIAL	16,624	2,689	2,759	22,072	16,759	361	-	17,120
PACKAGING	11,417	2,874	-	14,291	12,438	5,229	4,446	22,113
OTHER	5,193	7,327	6,389	18,910	5,402	7,745	10,090	23,237
TOTAL	339,678	163,377	93,836	596,891	371,218	168,540	118,656	658,414

^{*}The figures for 2016 for raw materials purchased are shown again for greater data consistency.

SUPPLIERS BY PRODUCT PURCHASED

		2017	
	IT	PT	US
Category	EUR	EUR	EUR
Finished Products	983,622	4,862,739	45,737,275
Raw Materials	35,339,103	13,559,893	14,286,649
Maintenance and consumables	16,583,886	8,360,502	2,833,528
Energy	19,299,330	8,831,443	-
Rent and hire	8,171,983	906,896	-
Transport	7,563,042	5,423,830	553,057
Sales and marketing	9.002.528	4.262.984	-
Services	22,141,750	3,628,128	17,860,792
	-	702.969	-
Other	2,637,288	3,961,432	27,832,628
TOTAL	121,722,532	54,500,817	90,905,393

8. GRI Content Index

8.0 GRI Content Index

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102-40	List of stakeholder groups	21
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The independent auditor's report



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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267

To the Board of Directors of Panariagroup Industrie Ceramiche S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Panariagroup Industrie Ceramiche S.p.A. and its subsidiaries (hereinafter the "Panariagroup Group" or the "Group") as of December 31, 2017 prepared on the basis of article 4 of the Decree, and approved by the Board of Directors on March 16, 2018 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI - Global Reporting Initiative (hereinafter "GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Ancora Bari Bergamo Bologna Brescia Cagliari Firenze Gonosa Milano Nacoli Padosa Parma Roma Torino Treviso Udine Verona Sede Legalle Via Tortona. 25 - 20144 Milano | Capitale Soxiale Duro 18:328.220.00 liv. Codice Piscale/Registro delle Imprese Milano n. 03049560166 - R.L.A. Milano n. 1720229 | Parsita IVA. IT 03049560166

If nome Delotion or infersture a unio o più delle seguenzi entità. Delotior Touche Tournest, una società inglese a responsibilità limitata ("DTE,"), le member firm aderesti al suo netioni in le ministra esse convister. DTE, o accounta delle sue member firm soni o entità giuridicamente seguenze e indipendenti tra i non DTE, oberiominata anche Delotioni Gostaff non formicos serveri a clerit. Si initiata a leggere l'informativa completa entito a discussione della struttura leggia di Diritorie Touche Tohnato Uninseto e clerit sue member firm all'indivisco.

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Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (hereinafter *ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

- 1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
- 2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.
- 3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Panariagroup Group.
- 4. Understanding of the following matters:
 - · business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
 - · policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
 - · main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a).

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Panariagroup Industrie Ceramiche S.p.A. and with the employees of Gres Panaria Portugal S.A. and Florida Tile Inc., and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

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In addition, for material information, taking into consideration the Group's activities and characteristics:

- · at the parent company's and subsidiaries' level:
- a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
- with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following companies and sites, Fiorano Modenese site and Finale Emilia production plant for Panariagroup Industrie Ceramiche S.p.A., Ilhavo and Aveiro production plants for Gres Panaria Portugal S.A., Lexington site and Lawrenceburg production plant for Florida Tile Inc., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Panariagroup Group as of December 31, 2017 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Other Matter

With reference to the year ended December 31, 2016, the Panariagroup Group prepared a Sustainability Report, whose data were used for comparative purposes within this NFS. That Sustainability Report has not been examined in accordance with ISAE 3000 Revised.

DELOITTE & TOUCHE S.p.A.

Signed by Franco Amelio Partner

Milan, Italy March 30, 2018

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

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CONCEPT & GRAPHIC DESIGN: Industree Communication Hub

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