

Sustainability Report **2019**

PANARIAgroup®



PANARIAgroup®

Sustainability
Report
2019



The images contained in this document represent our company's performance up to 2019, the reference year for this Sustainability Report.

These images therefore predate the COVID-19 emergency, which has forced everyone to reconsider their habits and work management methods.

In this changed context, Panariagroup has taken prompt action to adopt the most stringent safety measures for the protection of its employees and to provide correct and timely information on the procedures to follow, ensuring the safety of all those who come into daily contact with the company.

All with a fully aware and responsible approach as documented in the dedicated report at the end of this volume.

PANARIAgroup®

LETTER TO STAKEHOLDERS



I am very pleased to once again introduce **Panariagroup's Sustainability Report** this year.

It is a privilege to see how the company continues, year after year, on a path that is by no means easy – since it requires considerable economic, operational and cultural efforts –, yet **gradually leads to growing enthusiasm and satisfaction.**

Not to mention **the rigorous reporting process** that we undergo every year with this Report, which allows us to preserve a **distinctive hallmark** of our company, namely the certification of our economic, environmental and social responsibility activities.

It is also very reassuring to note that **certain indicators of absolute excellence have been confirmed over time**, strengthening our conviction that we have taken far-sighted past decisions in various areas.

This report is now in its fourth edition and every year we are proud to **celebrate the goals that we have achieved and the new ideas** that are fuelling our sustainability formula.

Ideas which, over the course of 2019, also came from our employees, who we involved, starting from the Italian side of the company, by encouraging them to suggest initiatives and ways **to make our responsible approach even more concrete.** This initiative has been very successful and has seen the participation of many staff, along with the employee listening survey, which revealed a deep sense of attachment to the company, as well as many ideas for improvement.

We therefore continue to engage our various stakeholders, not only those within the company, but also our customers, towards whom **we feel increasingly responsible in a changing world** that demands **ethical products which contribute to everyone's well-being.** We respond with our innovation, with ceramics that we increasingly design

to improve people's **quality of life**, with a clear mission that accompanies our entrepreneurial project. **A project that continues to pursue and obtain quality certificates**, such as the eco-friendly certifications that our technical teams continue to obtain for our products, making them increasingly dedicated to current and future ways of building and living.

A quality of life which, just as we prepare to conclude this report, has been severely affected by the crisis connected to the spread of COVID-19 in Italy and around the world, a situation that **requires a new, higher level of corporate responsibility.** We must pay even closer attention to the health and safety of our employees (and those who come into contact with the company), as well as to economic responsibility in order to guarantee business continuity and a stable business outlook.

In this regard **we are doing and will continue to do our part** to overcome a critical, unexpected phase, from which we want to emerge **stronger and even better than before.**

We are therefore pursuing our work with the utmost determination and the fact that I can continue to appreciate the efforts of the entire company makes me **deeply proud and grateful** to all those who make a significant contribution every day to strengthening our position for the journey ahead.

Emilio Mussini
President of Panariagroup

A handwritten signature in blue ink that reads "Emilio Mussini".

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OUR COMMITMENT

SUPPORT FOR INNOVATION

We have invested around **145 million euro** in innovation over the last 5 years.



REDUCTION OF RAW MATERIAL CONSUMPTION

We **recover** our production waste internally.



WASTE MANAGEMENT

94.2% of waste recovered along the production chain.



CLOSE RELATIONSHIP WITH THE LOCAL AREA

More than **90%** of our expenditure is made on **local suppliers**.



ENERGY SAVING

Our **energy consumption index** is **0.139 GJ for m²** of tiles, using increasingly more renewable energy.



ECO-FRIENDLY PACKAGING

Increasing use of **recycled packaging materials**.



LOW WATER IMPACT

Water consumption intensity **0.02 m³ per m²**.



PRODUCTS FOR QUALITY OF LIFE

We develop **sustainable materials** (laminated porcelain stoneware) for **healthy and protected spaces** (Protect antibacterial technology).



EMISSION REDUCTION

9 tCO₂e for 1000 m² of tiles, **197 tCO₂e avoided** over the course of the year.¹, equal to the absorption of **almost 6,000 trees**



HUMAN RESOURCES

97% of our employees have a **permanent contract**.

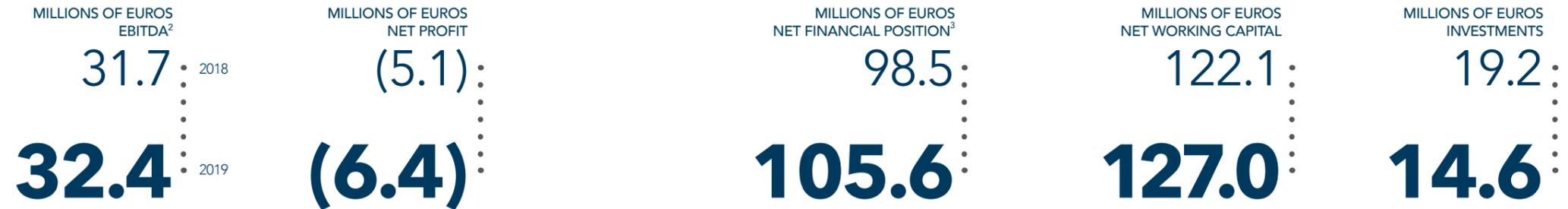


1. In 2019, through the photovoltaic systems installed at the Fiorano Modenese, Finale Emilia and Sassuolo plants, the Group avoided 197 tCO₂e, calculated with Location-based methodology, a 3% increase compared to 2018. To calculate the equivalent number of trees, the potential absorption of a tree (such as a tall tree species) was considered to be between 20 and 50 kgCO₂/year (Source: www.reteclima.it).

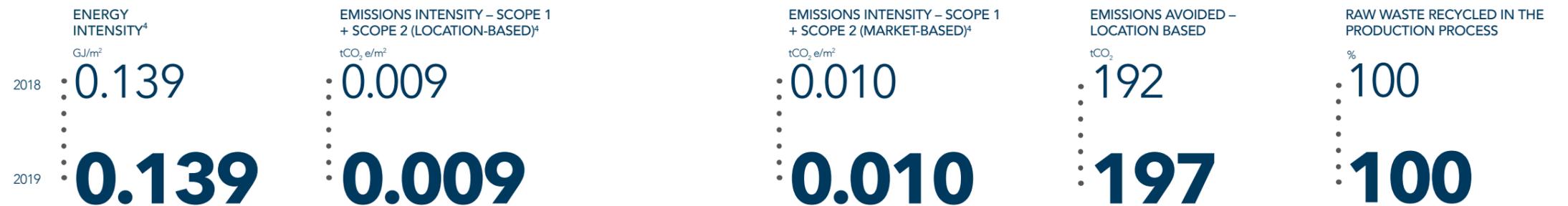
HIGHLIGHTS 2019



ECONOMIC



ENVIRONMENTAL



SOCIAL



2. As a result of the process of adjustment to the new IFRS 16 – Leases accounting standards (retroactive application using the “full retrospective” method), as of 1 January 2019, the 2018 figures for EBITDA, net profit and net working capital have been restated with respect to those published in the previous Sustainability Report. For the previously published data, see the 2018 Sustainability Report, published in the Sustainability section on www.panariagroup.it.

3. Net of leasing liabilities.

4. The intensity values are calculated based on the m² of tiles produced during the year, which amounted to 22,751,785 m² in 2019 and 22,486,526 m² in 2018.

5. The data relating to the Health and Safety of contractors only include the category of staff leasing workers and not other types of external staff who work at the Panariagroup Group's sites and/or under the Panariagroup Group's control, in view of their significance and of the availability of this data over which the Panariagroup does not exercise direct control.



SUSTAINABILITY FOR
PANARIAGROUP



1.1

NOTE ON METHODOLOGY

Panariagroup **oversees sustainability issues** through policies and actions aimed at ensuring their monitoring and management.

This document presents the Panariagroup Group's (hereafter also "Panariagroup" or "Group") annual Consolidated Non-Financial Statement (hereafter also "Sustainability Report"), as required by Legislative Decree 254/2016.

In compliance with Article 5 of the Decree, this document is a separate report with specific wording to refer to the Consolidated Non-Financial Statement as set out by the regulation.

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 its activity, with regard to the issues considered relevant by and included in Article 3 of Legislative Decree 254/16, with reference to the 2019 financial year (from 1 January to 31 December). The selection of the aspects and indicators used to define the reported content was carried out through a materiality analysis that considers issues relevant to the Panariagroup Group and its stakeholders; for details on the materiality analysis conducted in 2019, please refer to the "Materiality Analysis" section of this document.

The Panariagroup Group's 2019 Sustainability Report **has been prepared in accordance with the "Global Reporting Initiative Sustainability Reporting Standards"** set out in 2016 by the GRI – Global Reporting Initiative, according to the "In accordance - Core" option. **With regard to the Specific GRI 303 (Water and Effluents) and GRI 403 (Occupational Health and Safety) standards, the most recent 2018 versions have been adopted.**

The scope of reporting of data and economic-financial information corresponds to that of Panariagroup Industrie Ceramiche S.p.A.'s consolidated financial statement of 31 December 2019. With regard to **qualitative information and quantitative data relating to human resources**, including health and safety in the workplace aspects,

companies using the full consolidation method in the consolidated financial statement are included in the reporting scope⁶. With regard to **qualitative information and quantitative data relating to environmental aspects and other social aspects**, the Group's companies that manage production sites are included, while the companies with only commercial offices and Montanari Ceramiche S.r.l., a ceramic retail outlet, are excluded, as they are not considered relevant to ensuring understanding of the Group's business activity and its impact.

With regard to changes in the Group's size and scope of consolidation, it should be noted that, on 1/08/2019, **Panariagroup acquired control of Panariagroup India Industrie Ceramiche Pvt Ltd**, the company that markets "Bellissimo" brand products in India, formerly 50% owned under a joint venture agreement. The company's share of total assets and total Group revenues is less than 0.5%. There were no significant changes in the Group's ownership structure and supply chain.

Information relating to the reference period is compared with that of the previous year, where available. When data relating to the previous period is restated, this is expressly indicated. To ensure the reliability of the data, use of estimates has been limited as much as possible. When estimates are used, they are accordingly indicated and are based on the best available methods. Starting from the topics considered relevant, in line with previous years, an assessment was made of the risks associated with sustainability issues connected to the Group's business, which relate in particular to the following aspects: management of climate change and environmental risks, as well as risks linked to respect for human rights, occupational health and safety, and active and passive corruption. For more details, please refer to the "Sustainability Risk Management" section.

The Group oversees sustainability issues through policies and actions aimed at ensuring their monitoring and management.

The Group has developed a strong and constant commitment to the management and monitoring of environmental aspects, through the adoption of certified management systems (ISO14001, EMAS) in the Italian and Portuguese plants and the preparation of the AIA Report required by the Integrated Environmental Authorisation (IEA) for the Italian plants. Besides this, activities and objectives are defined for energy efficiency and for the reduction of the use of raw materials and, in general, of environmental impact in the production cycles. For more details, please refer to the "Environmental Responsibility" chapter of this document.

The Group recognizes the intrinsic value of each person and constantly works to ensure their well-being and the consideration, through decentralized management based on the Group's three operational hubs (Italy, Portugal and USA), of issues relating to human resources management. Particular attention is paid to aspects relating to occupational health and safety, for which the Group has implemented an integrated Quality, Environment, Hygiene and Safety management system aimed at ensuring the protection of its workers through continuous monitoring of the main indicators, protection of employee well-being and professional development. For more details, please refer to the "Social Responsibility" chapter of this document.

The Group also ensures the protection of human and workers' rights throughout the value chain. To this end, in 2018, the Group prepared its Group Code of Ethics and a Code of Business Conduct for suppliers, which define the principles and values underlying its daily operations and the entire value chain. With regard to its supply chain, **in 2019 the Group embarked on a process to integrate ESG (Environmental, Social and Governance) criteria into**

the suppliers selection and assessment process, which will be completed in 2020.

In terms of anti-corruption, ethics and business integrity, the Parent Company Panariagroup Industrie Ceramiche S.p.A. adopted the 231/01 Management and Organisation Model in 2009, which is constantly updated, and **has extended the role of the Supervisory Body of the Italian Parent Company to the companies in foreign markets.** For more details, please refer to the "Integrity and Compliance" section of this document.

The process of integrating sustainability issues into the Group's value chain continued in 2019 with **the achievement of numerous objectives declared in the 2018 Consolidated Non-Financial Statement**, and others confirmed for next year, and the definition of new goals to be achieved over the next few years; for more details on the achieved objectives and the newly defined objectives, please refer to the "Sustainability goals" section in this document.

The Panariagroup Group's 2019 Consolidated Non-Financial Statement was approved by the Board of Directors of Panariagroup Industrie Ceramiche S.p.A. on 13 March 2020.

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

For information on the Consolidated Non-Financial Statement, please contact: sustainability@panariagroup.it.

⁶ For the list of Companies using the full consolidation method, please refer to the "Group Structure" section of the Management Report in the Panariagroup Industrie Ceramiche S.p.A. Consolidated Financial Statement of 31 December 2019.

1.2 OUR APPROACH TO SUSTAINABILITY

Panariagroup's mission is to develop and create well-being in harmony with people and the environment, with great willingness, passion and love for our work. In order to achieve these goals, the Group aims to generate sustainable value for its shareholders, employees and commercial partners, respecting the society and the environment. The Group has a strong focus on research and innovation and aims to meet the highest expectations in terms of well-being and aesthetics, for both professional and private customers, in the architecture and in the construction industry.

Always at the vanguard in skilfully combining beauty, quality and sustainability, Panariagroup works every day **to reduce the environmental impact of its plants,** demonstrating its commitment to ecosystem conservation and to researching the best housing comforts. This is a vital and essential commitment for those who, like Panariagroup, **create products that millions of people all around the world encounter in their daily life,** at home or in public places.

In practice, acting responsibly means including sustainability among the aspects to take into consideration in the company's daily choices, from the purchase of raw

materials to the sale of the final product. This involves paying attention to the entire production chain and to the actors affected by it: employees, suppliers, consumers, customers, local communities, associations and all those entities whose interests intersect with those of the company.

In this context, the Group has been and remains constantly committed to the **development of new management systems, procedures and policies that carefully consider respect for the environment and for the society** that surrounds it, of which it is an integral part. Furthermore, for the Group, the principle of acting in compliance with sustainability principles also embraces aspects not directly linked to environmental policies. The Group's management strategies include policies and practices that analyse and regulate the company's impact on both the economy and society.

From a social point of view, the Group has contributed with perseverance and dedication to **increasing the prosperity of the areas in which it operates and of the people with whom it interacts.** In this regard, through its production facilities and its commercial offices, the Group has actively promoted employment.

The Italian Business Unit continued to raise awareness about corporate sustainability, **increasingly involving employees through listening initiatives, targeted communications, an ideas competition, the introduction of separate waste collection and distribution of water dispensers** in all facilities.



Confirming the Group's commitment to sustainability, Panariagroup has received an award from the Biblioteca Bilancio Sociale for the second year running.

Even during the economic crisis involving most of the Countries in which the Group operates, Panariagroup has always been committed, with regard to its own employees, to maintaining employment levels, offering safe workplaces and paying attention to the well-being and welfare of employees.

In 2019, the activity of communicating the company's commitment to sustainability continued, with increasing involvement of certain stakeholder categories. In particular, the Italian Business Unit launched several initiatives to listen to and directly involve employees, described in the section of this document entitled "The Group's Stakeholders and Relationship Channels". These initiatives were an important opportunity for discussion with those who work at Panariagroup and provided an insight into certain specific issues, as well as valuable information for future developments.

With regard to communication, the second internal newsletter dedicated to sustainability issues was published. **The first edition of the Sustainability Award** was also established, **an ideas competition in which all employees were asked to propose initiatives** to strengthen the company's responsibility profile in terms of production, daily life at the company and relations with the community and the local area. These initiatives are specifically discussed in the chapter entitled "Social Responsibility".

In environmental terms, **the system for distributing drinking water to employees was completely converted,** involving the replacement of disposable plastic bottles with water dispensers, as well as more systematic improvement of separate waste collection methods.

The Group embarked on an important **process to integrate ESG (Environmental, Social and Governance) criteria** into the supplier selection and assessment process, which will be completed in 2020. Meanwhile, the Portuguese and American Business Units have **implemented programmes related to the well-being and health of their employees** through a number of initiatives in reference to which please refer again to the "Social Responsibility" chapter of this document.

Once again, Panariagroup's new Sustainability Report not only answers the need to show stakeholders the company's activities, social commitment and efforts to reduce its environmental impact, but also **the need to integrate, with growing awareness, aspects of sustainability in the company's strategic decisions,** in order to create increasing value for people and the areas in which it operates. In order to come to responsible decisions, it is therefore necessary to have a thorough understanding of the company's positive and negative impact and this report is a fundamental step for Panariagroup towards this goal.

1.3

THE GROUP'S STAKEHOLDERS AND RELATIONSHIP CHANNELS

Stakeholders play a fundamental role in Panariagroup's sustainable growth. Through their involvement and through consideration of their needs, the Group maintains a constant vision towards the different contexts in which it operates, working hard to consider their expectations, perceptions and priorities within the decision-making processes and in the definition of economic, environmental and social objectives.

In its Sustainability Report, Panariagroup has

identified the individuals or groups of individuals who have a relationship with the company and its activities, through an analysis that considered the following variables: tension, influence, responsibility and dependence. This exercise was carried out taking into consideration the principles of the GRI Standards.

The result of this careful analysis of all the actors who gravitate around Panariagroup led to the **identification of the stakeholders** shown in the following chart.

Through the **involvement of the stakeholders and consideration of their needs**, the Group can pursue its economic, environmental and social targets in a shared and effective way.

THE STAKEHOLDER

-  Shareholders, financiers and investors
-  Consumers
-  Public institutions
-  Customers (distributors)
-  Suppliers
-  Employees and trade unions
-  Representative Trade associations
-  Local communities
-  Developers, architects and interior designers

Panariagroup maintains a **constant level of communication with its stakeholders, bearing in mind their mutual needs**. In this regard, the Group strives daily to maintain active and continuing relations with its stakeholders through various methods involving the different company functions.

In 2019, **the Group decided to strengthen its stakeholder listening activities by involving employees in Italy** through a questionnaire on an anonymous online platform, as well as three focus groups, which were an important opportunity for Panariagroup staff to discuss areas related to working life within the company. The purpose of this activity was also to identify the staff's views on sustainability issues, making it possible to update

the Group's materiality matrix, which is reported in the following pages. Through this initiative, for further details on which please refer to the "Social Responsibility" chapter, **Panariagroup is renewing its commitment to its employees**, in the belief that by listening to them we can build a better working environment together and, at the same time, help the company to make the best strategic decisions.

The following table shows the methods of interacting with the Group's stakeholders, divided into individual categories.

Panariagroup maintains a **constant level of communication with its stakeholders, bearing in mind their mutual needs**.

STAKEHOLDER	METHODS
SHAREHOLDERS, FINANCIERS AND INVESTORS	<ul style="list-style-type: none"> Shareholders' Meeting Investor relations activities Publication on the Group's website of all financial and non-financial information required by current regulations Participation in the STAR event in Milan Daily contact related to operations and specific meetings with the Group's financiers Communication activities through media of the company's results and key initiatives
CONSUMERS	<ul style="list-style-type: none"> Commercial relations in the Group's shops Presence at events (e.g. Milan Design Week)
PUBLIC INSTITUTIONS	<ul style="list-style-type: none"> Participation in data collection through surveys for statistical purposes Compliance with the documentary requirements of national and local legislation Constant collaboration with the institutions responsible for issuing authorizations and environmental certifications
CUSTOMERS (DISTRIBUTORS)	<ul style="list-style-type: none"> Daily report from the Group's commercial offices Participation in the main trade fairs Visits organized at the Group's offices

EMPLOYEES AND TRADE UNIONS	<ul style="list-style-type: none"> Newsletters for employees Notice boards and signage stands at the plants and sites Training activities and regular refresher activities for employees Regular meetings with employees' representatives Initiative to listen to staff through an online questionnaire and focus groups Sustainability Award Periodic management meeting to update the managers of the Italian Business Unit
SUPPLIERS	<ul style="list-style-type: none"> Activities to select suppliers and to evaluate performance in terms of quality, sustainability and cost of the service Regular meetings and audits of suppliers carried out by the Group's Purchasing Department ESG Risk Analysis on suppliers in Italy
REPRESENTATIVE/ TRADE ASSOCIATION	<ul style="list-style-type: none"> Membership of Confindustria Ceramica (Italy) and APICER (Portugal) and participation in the relevant technical committees on environment and safety Membership of the US Green Building Council Participation as an ordinary member in Green Building Council Italia
LOCAL COMMUNITIES	<ul style="list-style-type: none"> Sponsorship and donation of contributions aimed at the socio-economic development of the areas in which the Group operates
DEVELOPERS, ARCHITECTS AND INTERIOR DESIGNERS	<ul style="list-style-type: none"> Development of a function dedicated to building a structured and continuous relationship with designers, architects and interior designers Technical seminars organized at external sites for compulsory training (training credits) Seminars in the Group's showrooms with the participation of experts Participation in fairs and events aimed at the target audience Visits organized at the Group's offices

1.4 MATERIALITY ANALYSIS

In 2019, the materiality analysis was updated through direct involvement of the Top Management and employees in Italy, taking into consideration the topics and the areas covered by Article 3 of the Decree.

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

The materiality analysis aims to identify the aspects which reflect the significant economic, environmental and social aspects for the organization and which have a major influence on stakeholder assessments and decisions.

The map of the relevant issues identified in 2018 by Panariagroup was confirmed and reassessed by the Group's top management and stakeholders through an anonymous online survey which requested that participants evaluate the 5 sustainability issues considered most relevant, i.e. on which Panariagroup should focus its sustainability strategy, and the 5 least relevant issues, taking into account knowledge of the context and the Group's business. The engagement activity, which was designed to update the materiality analysis, directly involved the Employees stakeholder category with more than 200 participants and the Group's Top Management with more than 20 participants.

The results that emerged from the activities described above have been aggregated with the results that emerged in previous years and incorporated into the 2019 materiality matrix.

The materiality analysis aims to identify the most significant "material" economic, environmental and social aspects for the organization and its stakeholders.

THE PANARIAGROUP'S MATERIALITY MATRIX 2019



Product quality and design, Economic Performance, Health and Safety in the workplace, Sustainable innovation and Customer satisfaction are **key issues for both the Group and its stakeholders.**

The materiality matrix confirms the importance, again in 2019 for both the Group and its stakeholders, of the **issues of Economic Performance, Health and Safety in the Workplace, Product Quality and Design, Sustainable Innovation and Customer Satisfaction.** These issues relate to aspects of primary importance that are fully consolidated in the company's operations and recall the strategy implemented thus far by the Group, which has invested heavily in these areas.

With respect to the issues considered material for the Group and its stakeholders published in the 2018 Consolidated Non-Financial Statement⁷, the following changes should be noted:

- The "Employee development and well-being" topic has been divided into "Well-being and responsibility towards employees" and "Employee training and development". These issues emerged as particularly relevant for stakeholders, including in relation to employee engagement activities carried out during the year. However, these aspects are considered key in relation to new work trends and to the expectations of new generations and employees who perceive their personal well-being at work as an impact factor, including beyond the company. Moreover, these aspects are also considered

increasingly important for the Group, in line with one of Panariagroup's core values: attaching central importance to people and quality of life, while operating with the utmost respect for those who work with the Group;

- The "Protection of brands" topic has been changed to "Protection of brands and reputation" in order to highlight the Group's increasing attention to communication and interaction with the external context, as well as to monitoring all those factors that could have a negative impact on the Group's reputation;
- The "Protection of human rights" topic has been incorporated into the "Responsible supply chain management" topic, since it is primarily relevant to the Group's supply chain;
- The "Governance structure and risk management" topic has not been included in the materiality matrix because it is considered an essential element for the proper management of sustainability issues and more generally of the Group's activities, and is therefore the subject of in-depth disclosure;
- The "Socio-economic development of local communities" topic did not emerge as a priority and relevant issue either for the Group or for its stakeholders in relation to other impact topics.

Below is a breakdown of the issues that emerged as material:

MATERIAL TOPICS

DESCRIPTION

PRODUCT QUALITY AND DESIGN

Product certifications and adoption of procedures and systems developed to guarantee high product quality standards and continuous design innovation in order to respond in an increasingly comprehensive and effective way to the different needs and demands of the market.

ECONOMIC PERFORMANCE

Responsible management of the Group's economic and financial resources to ensure the resilience, stability and continuity of business operations with the aim of creating value in the short, medium and long term for all stakeholders.

7. For further details on the materiality analysis conducted in 2018, please refer to the 2018 Sustainability Report, published in the Sustainability section on www.panariagroup.it.

HEALTH AND SAFETY IN THE WORKPLACE	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.
SUSTAINABLE INNOVATION	Activities and policies related to technological innovation and Research and Development activities designed to continuously improve processes and products, with particular attention to environmental impact reduction.
CUSTOMER SATISFACTION	Procedures and systems for monitoring and managing customer satisfaction and any complaints related to health and safety, labelling, product information and communication and marketing activities.
WELL-BEING AND RESPONSIBILITY TOWARDS EMPLOYEES	Staff 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 AND DEVELOPMENT	Development and training activities intended to improve employees' technical, managerial and organisational skills and to strengthen the expertise required for the position. Staff incentive policies and systems, career development and talent attraction.
ENERGY RESOURCES AND EMISSIONS MANAGEMENT	Policies for monitoring and efficient management of energy consumption and emissions. Use of energy from renewable sources (green certificates, photovoltaic systems, etc.). Initiatives, activities and policies adopted with the aim of reducing energy consumption and minimizing atmospheric emissions from company activities.
WATER RESOURCES MANAGEMENT	Policies for monitoring and efficient management of water resources, including in relation to water-stressed areas. Implementation and use of water recovery and reuse systems in production cycles. Initiatives, activities and policies adopted with the aim of reducing water consumption used for company activities.
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. Adherence to national and international principles and guidelines that include areas of social and environmental responsibility in which the Group operates or which are linked to its business activities. A commitment by the Group to combat active and passive corruption through implementation of policies, procedures and mechanisms for reporting potential irregularities or illegal behaviour and specific training activities on the subject.
PROTECTION OF BRANDS AND REPUTATION	Policies to promote the Group's different types of brands, multi-brand commercial strategies and the development of policies designed to spread and protect them.
WASTE AND WASTEWATER MANAGEMENT	Responsible management of hazardous and non-hazardous waste related to Panariagroup's business operations, and promotion of responsible management methods and practices such as: reuse, sorting and recycling of generated waste.
RESPONSIBLE SUPPLY CHAIN MANAGEMENT	Supply chain management aimed at promoting transparency between parties and procurement practices that are responsible in environmental terms (including attention to the protection of biodiversity for suppliers of raw materials whose activities and processes have a high environmental impact), social terms and with regard to respect for human rights. Implementation of supplier evaluation systems based on social and environmental criteria, as well as on the quality of their services and products.

As required by GRI reporting standards, the table below shows the scope of the impact of each material topic. 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.

MATERIAL TOPICS	SCOPE OF IMPACT	INVOLVEMENT OF THE GROUP
PRODUCT QUALITY AND DESIGN	Group	Caused by the Group
ECONOMIC PERFORMANCE	Group	Caused by the Group
HEALTH AND SAFETY IN THE WORKPLACE	Group employees and contractors ⁸	Caused by the Group
SUSTAINABLE INNOVATION	Group	Caused by the Group
CUSTOMER SATISFACTION	Group	Caused by the Group
WELL-BEING AND RESPONSIBILITY TOWARDS EMPLOYEES	Group	Caused by the Group
EMPLOYEE TRAINING AND DEVELOPMENT	Group	Caused by the Group
ENERGY RESOURCES AND EMISSIONS MANAGEMENT	Group and electric and thermal energy suppliers	Caused by the Group and related to the Group through its commercial relations
WATER RESOURCES MANAGEMENT	Group	Caused by the Group
INTEGRITY AND COMPLIANCE	Group	Caused by the Group
PROTECTION OF BRANDS AND REPUTATION	Group	Caused by the Group
WASTE AND WASTEWATER MANAGEMENT	Group	Caused by the Group
RESPONSIBLE SUPPLY CHAIN MANAGEMENT	Group and suppliers	Caused by the Group and which the Group contributes to

8. The data relating to the Health and Safety of contractors only include the category of staff leasing workers and not other types of external staff who work at the Panariagroup Group's sites and/or under the Panariagroup Group's control, in view of their significance and of the availability of this data over which the Panariagroup does not exercise direct control.



1.4.1 PARTICIPATION IN THE UN GLOBAL COMPACT

In 2018, Panariagroup chose to participate in the UN Global Compact and, starting from the 2018 Sustainability Report, it is reporting on activities carried out to promote the 10 Principles (Communication on Progress), in line with its commitments.

The Global Compact encourages companies around the world to create an economic, social and environmental framework to promote a healthy and sustainable world economy that guarantees everyone the opportunity

to share the benefits. To this end, the Global Compact requires participating companies and organisations to share, support and apply, within their sphere of influence, a set of fundamental principles relating to human rights, labour standards, environmental protection and the fight against corruption. Panariagroup, by participating in the UN Global Compact, embraces these fundamental principles and welcomes international discussion of crucial issues, confirming its relevance with respect to its development policies.



SCOPE	GLOBAL COMPACT PRINCIPLES	GLOBAL COMPACT REQUIREMENTS	PANARIAGROUP REFERENCE
 HUMAN RIGHTS	1. Promotion and respect of universally recognized human rights in their respective spheres of influence	Assessments, policies, objectives and initiatives implemented	Risk of human rights violations (pag. 56) Introduction of a Code of Ethics and of a Code of Business Conduct for the Group (pag. 60-61)
	2. Guarantee of not being, directly or indirectly, complicit in violations of human rights	Performance indicators	GRI 102-16 (pag. 60-61) GRI 414-1 (pag. 133)

 WORK	3. Support for workers' freedom of association and recognition of the right to collective bargaining agreements	Assessments, policies, objectives and initiatives implemented	Introduction of a Code of Ethics and of a Code of Business Conduct for the Group (pag. 60-61) Initiatives described in the "Social Responsibility" chapter (pag. 116-137)
	4. Elimination of all the forms of forced and compulsory labour	Performance indicators	GRI 102-8 (pag. 147-148) GRI 102-41 (pag. 121; 157) GRI 202-1 (pag. 158) GRI 202-2 (pag. 157) GRI 401-1 (pag. 151-152) GRI 401-3 (pag. 153-154) GRI 404-1 (pag. 126; 155) GRI 405-1 (pag. 149-150) GRI 406-1 (pag. 120)
	5. Effective abolition of child labour		
	6. Elimination of all the forms of discrimination in employment and professional occupation		
 ENVIRONMENT	7. Support for the preventive approach to environmental challenges	Assessments, policies, objectives and initiatives implemented	Environmental risk (pag. 55-56) Adoption of an integrated quality, environment and health and safety system and ISO 14001 and EMAS certified management systems (pag. 97)
	8. Development of initiatives that promote greater environmental responsibility	Performance indicators	Initiatives described in the "Environmental Responsibility" chapter (pag. 94-115) GRI 301-1 (pag. 159) GRI302-1 (pag. 106-108; 140-141) GRI 302-3 (pag. 12-13; 106; 140) GRI 303-3 (pag. 144) GRI 303-4 (pag. 145) GRI 305-1 (pag. 109; 142) GRI 305-2 (pag. 109; 142) GRI 305-4 (pag. 12-13; 106; 142) GRI 305-7 (pag. 142) GRI 306-2 (pag. 146) GRI 307-1 (pag. 61) GRI 308-1 (pag. 133) GRI 414-1 (pag. 133)
	9. Incentivisation of the development and dissemination of technologies that respect the environment		
	10. Commitment to fighting corruption in all its forms, including extortion and bribery	Assessments, policies, objectives and initiatives implemented	Risk of active and passive corruption (pag. 58) Adoption of the 231/01 Organization and Management Model and its extensions in foreign companies (pag. 60) Formalisation of a Code of Ethics and of a Code of Business Conduct for the Group (pag. 60-61)
 FIGHT AGAINST CORRUPTION		Performance indicators	GRI 102-16 (pag. 60-61) GRI 205-3 (pag. 61)

1.5 SUSTAINABILITY GOALS

Panariagroup's sustainability goals are based on the internationally recognized **guidelines of the 2030 Agenda** and of the **17 SDGs - Sustainable Development Goals**.

SDGs - Sustainable Development Goals

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

To confirm its commitment to the advancement of a business model that integrates economic, social and environmental responsibility in all the activities and in all the aspects regarding the Group,

Panariagroup, following on from the previous year, has defined new sustainability goals.

In defining the goals, internationally recognised sustainable development guidelines were taken into account, in particular **Agenda 2030 and its 17 Sustainable Development Goals (SDGs).**

From an analysis of the SDGs and their related targets, Panariagroup has identified the following goals as priorities on which the Group has decided to focus its commitment in the medium-long term.



GOAL 4: ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Target 4.4: by 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship



GOAL 6: ensure availability and sustainable management of water and sanitation for all
Target 6.3: by 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Target 6.4: by 2030, substantially increase water-use efficiency across all the sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity



GOAL 8: promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Target 8.2: achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors
Target 8.4: improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation
Target 8.7: take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms
Target 8.8: protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

GOAL 9: build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Target 9.1: develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

Target 9.4: by 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities



GOAL 10: reduce inequality within and among countries

Target 10.4: adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality



GOAL 12: ensure sustainable consumption and production patterns

Target 12.2: by 2030, achieve the sustainable management and efficient use of natural resources

Target 12.5: by 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse



GOAL 13: take urgent action to combat climate change and its impacts

Target 13.1: strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Target 13.2: integrate climate change measures into national policies, strategies and planning



GOAL 16: promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Target 16.5: substantially reduce corruption and bribery in all their forms.



GOALS DECLARED IN NFS 2018

Below are the goals declared in the 2018 Non-Financial Statement, with their relative progress, and the new

sustainability goals that the Group defined in 2019 looking ahead to 2020.



BUSINESS ISSUES

GOALS DECLARED IN NFS18

TARGET PROGRESS

Industry 4.0: adherence to digitization incentives (Article 3 of Legislative Decree no. 145 of 23 December 2013, as replaced by Article 1, paragraph 35 of the 2015 Stability Law and amended in the 2017 Budget Law).	2018	Investments were made for the purchase of new machinery. The interconnection of the facilities, a fundamental prerequisite for certifying investment in the "Industry 4.0" program, is planned for 2020 and will determine the achievement of the fiscal target.	
Extension of the covered area of the Fiorano Modenese (Italy) plant for the expansion and optimisation of large format slab production.	2019	Work has started and is expected to be completed by 2020.	
Installation of new facilities at the Italian Business Unit, in particular no. 1 sorting line at the Toano plant, no. 1 sorting line and no. 1 drying room at the Fiorano plant.	2018	Sorting lines for the Toano and Fiorano plants have been installed. The construction of the drying room at the Fiorano plant is subject to site expansion work.	
Installation and launch of a dry-grinding line in the Finale Emilia plant, enabling recovery of powders during the milling of the mix and a consequent reduction in the production of waste (sludge) compared to when using a wet system.	2019	The goal has been achieved.	
Installation and launch of a dry-grinding and polishing line in the Aveiro plant, enabling recovery of powders during the milling of the mix and a consequent reduction in the production of waste (sludge) compared to when using a wet system.	2019	Goal postponed to 2020.	



QUALITY AND ENVIRONMENT

GOALS DECLARED IN NFS18

TARGET PROGRESS

Total replacement of fluorescent neon lights with installation of LED and magnetic induction lighting systems at the Toano plant (Italy) to significantly reduce electricity consumption.	2018	Goal will be completed in 2020.	
Partial replacement of fluorescent neon lights and installation of LED and magnetic induction lighting systems in the Ílhavo and Aveiro (Portugal) plants to obtain significant electricity reductions.	2019	Goal suspended due to an internal assessment of an organizational nature that led to the choice of different priorities.	
Complete removal of asbestos roofing at the Fiorano Modenese (Italy) site and replacement with eco-friendly materials.	2019	The goal has been achieved.	
Introduction of automatic washing systems for the glaze application machines to reduce water consumption at all the Italian plants.	2019	The goal has been achieved.	
Installation of soundproofing systems in the grinding department at the production sites in Portugal and the USA.	2019	The goal has been achieved.	
Work on dust extraction systems to reduce airborne silica in the Lawrenceburg (USA) plant.	2019	The goal has been achieved.	
Partial renovation of roofing in all of the Group's plants, using eco-friendly materials.	2019	Goal will be completed in 2020.	
Campaign to replace lead-acid batteries with lithium batteries, which have a longer life and are less polluting, for automatic vehicles for handling finished products.	2019	Goal will be completed in 2020.	
Progressive elimination of lamination from communication tools.	2019	The goal has been achieved.	



HUMAN RESOURCES

GOALS DECLARED IN NFS18

TARGET PROGRESS

Creation of a reward system for employees who distinguish themselves in activities related to environmental protection (an "ecological merit award") in all Business Units. 2019 An "ecological merit award" has been created in the Italian Business Unit. An extension of the foreign Business Units is planned over the next two years.

Improvement of activities to listen to staff in the Italian and US Business Units (e.g. climate analysis, etc.). 2019 An initiative to listen to staff has been created at the Italian business Unit. An extension of the foreign Business Units is planned over the next two years.

Modification and extension of the drinking water distribution service for employees in the Italian Business Unit. 2019 The goal has been achieved.

Structured training plan for the sales force in the Italian Business Unit. 2019 The goal has been achieved.

Improvement of communication channel with employees, through dedicated software in the Italian Business Unit. 2019 Goal will be completed in 2020.



SUPPLY CHAIN

GOALS DECLARED IN NFS18

TARGET PROGRESS

Introduction of a standardized system to assess new suppliers on the basis of social and environmental criteria, as well as criteria related to human and workers' rights. 2019 The goal has been achieved.

Development of an Impact Assessment and Risk Analysis of social and environmental impact in the supply chain. 2020 Goal confirmed for 2020.



GOVERNANCE

GOALS DECLARED IN NFS18

TARGET PROGRESS

Improvement of the access control system at the Italian Business Unit's sites, through installation of dedicated IT supports. 2018 The first part of the work has been carried out and is scheduled to continue in 2020.

Installation of a SAP information system to manage all of the Portuguese Business Unit's processes. 2019 The goal has been achieved.

Adaptation to the Italian legislation introducing obligatory "electronic invoicing". 2019 The goal has been achieved.

First-time adoption of the IFRS 16 Accounting Standard in relation to lease and rental contracts. 2019 The goal has been achieved.

NEW GOALS



BUSINESS ISSUES

TARGET 2020

- Installation of an innovative technology ("continuous line") in the Finale Emilia (Italy) plant with expected objectives compared to traditional lines of higher productivity, reduced electricity and gas consumption and expansion of the range of sizes that can be produced.
- Installation of a new atomizer in the Finale Emilia (Italy) plant, featuring greater energy efficiency.
- Industry 4.0: installation of a system of plant supervision and interconnection with the production lines in the plants of Finale Emilia and Toano (Italy), Aveiro and Íhavo (Portugal).
- Purchase of new internal handling machines (LGVs) at the Fiorano Modenese plant (Italy), with improved plant utilization, an increase in internally processed material and a consequent reduction in transport to external suppliers and savings in processing costs.
- Installation of new load compensators for the kilns in the Fiorano Modenese (Italy) plant, enabling increased filling of the kilns and consequent higher productivity and reduction of electricity and gas consumption.
- Installation and launch of a dry-grinding and polishing line in the Lawrenceburg (USA) plant, enabling recovery of powders during the milling of the mix and a consequent reduction in the production of waste (sludge) compared to when using a wet system.
- Installation of a mill to recover fired waste in the Lawrenceburg (USA) plant, with an increase in recoverable fired waste in the mix (up to 8%), reduced raw material consumption, and increased productivity and energy performance of the continuous mill.
- Replacement of compressors at the Lawrenceburg plant (USA) with new, more energy efficient models.



QUALITY AND ENVIRONMENT

TARGET 2020

- Industry 4.0: achievement of CE line certifications in the plants in Finale Emilia and Toano (Italy).
- Inclusion of hybrid cars in the Italian Business Unit's Car Policy.
- Replacement of 50% of the Portuguese Business Unit's car fleet with hybrid cars.
- Optimisation of the filter dust recovery and treatment system in the Fiorano Modenese plant.
- Certification of the new MAXA (NSF) large slab line, which is intended for the furnishing accessories segment and designed to be suitable for food contact.



SUPPLY CHAIN

TARGET 2020

- Introduction of a standardized system to assess new suppliers on the basis of social and environmental criteria, as well as criteria related to human and workers' rights in the Portuguese Business Unit.
- Development of an Impact Assessment and Risk Analysis of social and environmental impact in the supply chain in the Portuguese Business Unit.

TARGET 2020

- Implementation of at least one of the three projects awarded as part of the 2019 "Sustainability Award" in the Italian Business Unit.
- Implementation of improvement initiatives linked to the results of staff listening activities carried out in 2019 in the Italian Business Unit.
- Creation of Scholarships dedicated to the children of employees in the Italian Business Unit.
- Creation of a Solidarity Fund in the Italian Business Unit, with voluntary donations from employees for a specific charitable project.
- Establishment of a "Sustainability Award" in the Portuguese Business Unit through an ideas competition open to the staff of Gres Panaria Portugal.
- Staff listening initiative in the Portuguese Business Unit, in line with the methods adopted by the Group.



HUMAN RESOURCES

TARGET 2020

- Development of stakeholder engagement for customers in the Italian Business Unit.



CUSTOMERS



THE GROUP

2

2.1 GROUP PROFILE

With over 1,700 employees, more than 10,000 customers⁹, 6 production plants (3 in Italy, 2 in Portugal and 1 in the USA) and a turnover of 382 million euro in 2019 (+3% compared to 2018),

Panariagroup is one of the leading producers of ceramic tiles for floor and wall coverings and is positioned in the high-end and luxury segments.

 **6** production plants

 **14.6** millions of euro invested in 2019

 **382** 2019 turnover in millions of euro



⁹. Customers with a sales level over 1,000 euro were considered.



 **1,781** Employees

 Around **23** million m² produced in 2019

 **8** Brand

sales in over **130** countries

2.2 HISTORY

A path of constant evolution, driven by the Group's desire to confirm itself as a cutting-edge business group, not only from a technological perspective.

2010

Panariagroup's expansion continued and in **2010** a new sales organisation, Panariagroup Trade, was established, with the aim of gaining market shares in the Middle East, the Far East and Oceania. In particular, Panariagroup Trade responds to the need to distribute the Group's brands in these areas through more targeted commercial policies that respect the precise identity and peculiar features of each brand.

2009

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

2008

Blustyle Ceramica was created in **2008** to offer the market an agile and innovative model in terms of both its products and distribution approach. The company gradually flourished and today it is an official Brand in the Cotto d'Este family, from which it draws all its high-quality characteristics featured in products with a traditional thickness.

2005

In **2005**, Panariagroup acquired a second company in Portugal: Novagres, now Love Tiles, a leading brand in the production of large monoporosa coverings format and floors in glazed porcelain stoneware. The process of internationalisation continued in **2006** with the acquisition of the brand and main assets of Florida Tile Industries, a historical brand in the United States in the production and distribution of ceramic material. In December **2006**, the two Portuguese companies Novagres and Margres merged into Grès Panaria Portugal, maintaining the identity of the two brands. Furthermore, a new company named Panariagroup USA Inc. was established to control the Florida Tile and Lea North America companies.

2004

2004 was the year of Panariagroup's foundation, following the merger by incorporation of all Italian companies in Panaria. In the same year, Panariagroup decided to become a public company and on **19 November 2004** the Group was listed in the STAR segment of the Italian Stock Exchange. The internationalization process continued with the foundation, in **2004**, of Lea North America LLC, a company created to oversee the distribution of Lea products in the increasingly strategic US market.

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 production of porcelain stoneware ceramic in Portugal.

2012

The internationalisation process continued thanks to a joint venture with Asian Granito, a leading company in the Indian market. The "Bellissimo" brand was launched with the purpose of producing and selling luxury ceramic products with high value in terms of style and technology on the Asian market. The Group became even more committed to the Indian Business Unit in **2019** with the acquisition of 100% of the company's shares.

2016
2019

Greater investment was made in laminated porcelain stoneware: the third production line was built in Fiorano and the product range was expanded with the introduction of new sizes and thicknesses.

New commercial channels were developed: the Contract & Key-Account Division was set up.

Investment continued: industrial development was also strengthened in the American and Portuguese Business Units.

The company's quality assurance was progressively strengthened, in particular with the introduction of new product sustainability certifications (e.g. EPD and Green Guard).

The sustainability reporting process officially began with the publication of the first Sustainability Report (**2016** financial year) and the development of initiatives aimed at certain stakeholder categories (in particular employees).

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 shareholder of Panariagroup Industrie Ceramiche S.p.A.

1992

During the 1990s, Panaria implemented a strategy of expansion and extension of its brands and products through the acquisition, in **1992**, of Ceramiche Artistiche Lea, a company specialised in the production of single-fired floor tiles, and by founding, in the same year, Cotto d'Este, a company created to design and market exclusive, high-end product lines destined to conquer the luxury segment of the market.

1995

In **1995**, the Group's production capacity 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, the Fiorio Industrie Ceramiche brand was founded in order to strengthen the Group's leading position on the market.



2.3 PANARIAGROUP WORLDWIDE

Panariagroup is active both in Italy and abroad with **eight brands**: Panaria Ceramica, Lea Ceramiche, Cotto d'Este, Blustyle, Florida Tile, Margres, Love Tiles and Bellissimo. The Group is able to satisfy a diverse clientele that is attentive to products' technical and aesthetic quality. On 1 January 2019 the Group completed the process of integrating the Fiordo brand into the Panaria Ceramica brand.

The Panariagroup Group 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 Ílhavo in Portugal and Panariagroup USA Inc., which owns the Florida Tile Inc. and Lea North America LLC. Companies, with registered offices in Delaware (USA). Furthermore, the Group owns Montanari Ceramiche S.r.l., a retail outlet for the Group's ceramic material with registered offices in Finale Emilia, Modena (Italy), and Panariagroup India Industrie Ceramiche Pvt Ltd with registered offices in Ahmedabad (India), the company that markets "Bellissimo" brand products in India.

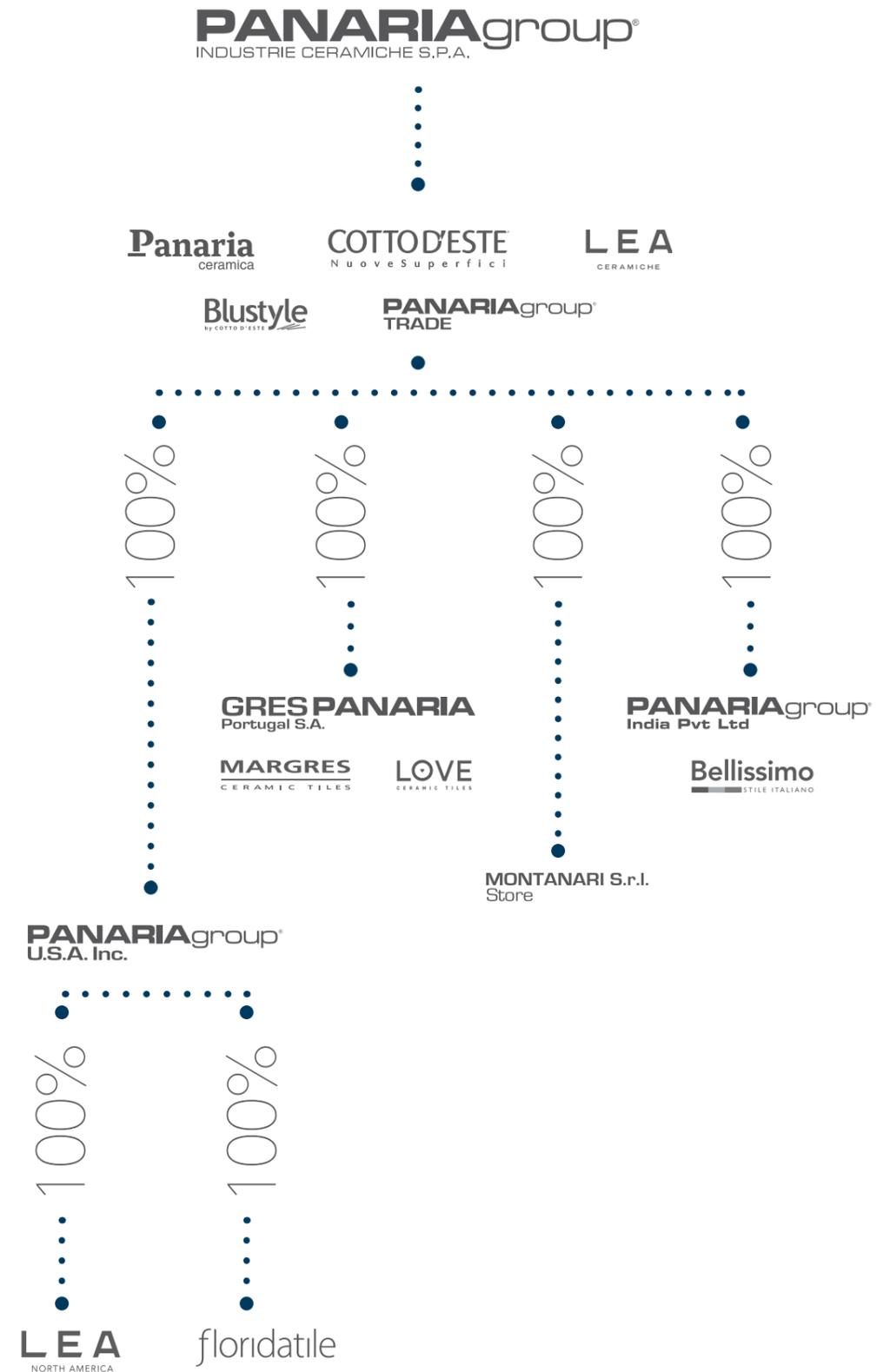
The Group's driving force is its **6 production plants**, located in Finale Emilia, Fiorano Modenese and Toano, Italy, in Ílhavo and Aveiro, Portugal, and in Lawrenceburg, United States. The Group also has two storage and shipping centres in Italy, located in Casalgrande and Sassuolo.

Panariagroup has a large and widespread sales network that covers Italy, Portugal, the United States, India and over 130 countries worldwide.

In fact, the Group's sales network supplies over 10,000 customers worldwide, mainly retailers, but also distributors, construction companies and customers engaged in major projects.

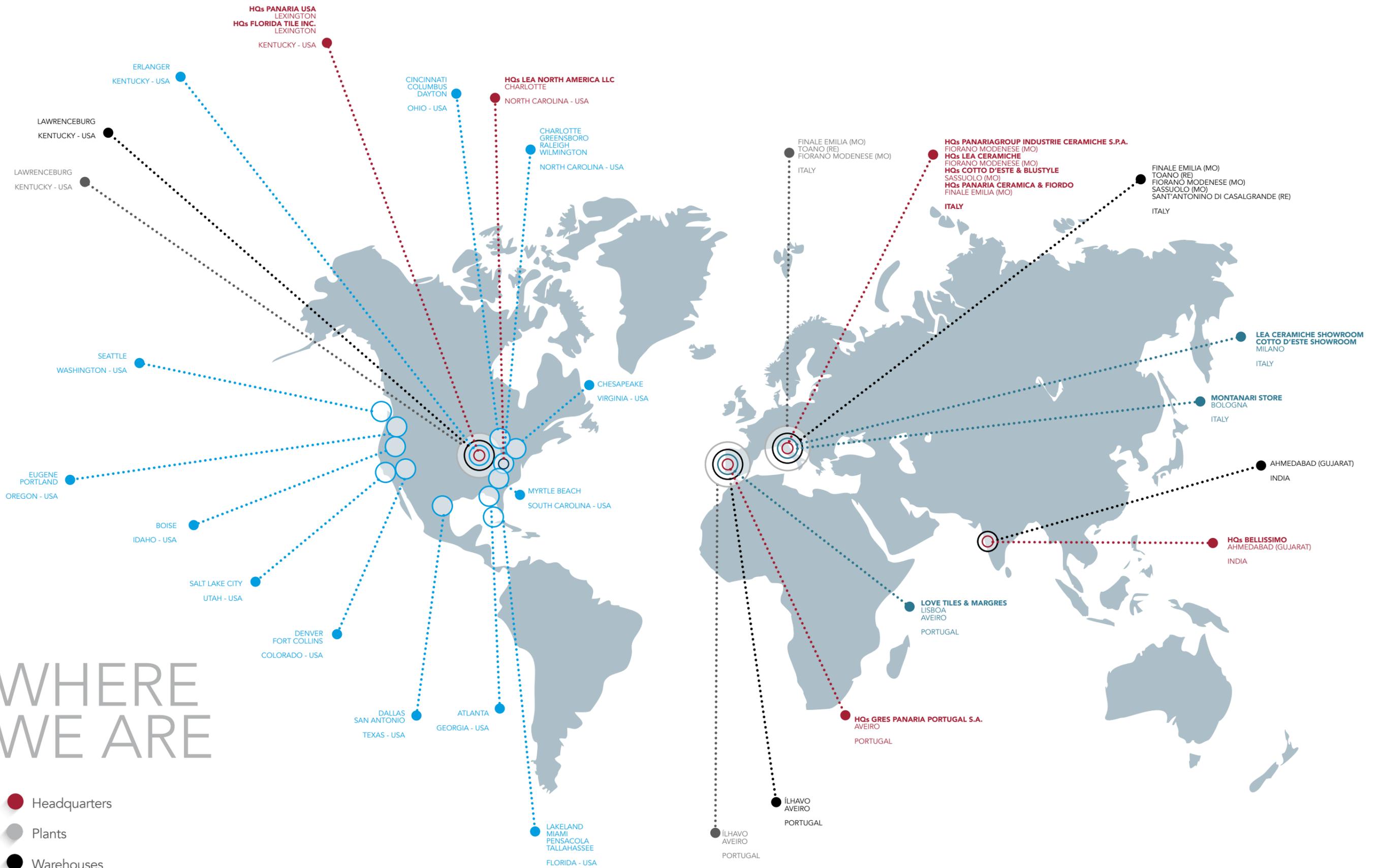
Marketing and distribution at national and international levels of all Panariagroup products is coordinated by an organisation of around 1,000 people, including area managers, commercial correspondents, sales agents and promoters. Moreover, in the United States, the Group directly manages 24 stores located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

Panariagroup has a **large and widespread sales network** that covers Italy, Portugal, the United States, India and over 130 countries worldwide.



WHERE WE ARE

- Headquarters
- Plants
- Warehouses
- Stores and showrooms
- Florida Tile Stores



2.4

THE GROUP'S VALUES AND PRINCIPLES

Panariagroup's mission is to **grow and to create well-being** in harmony with people and the environment, with great willingness, passion and love for our work.

PRINCIPLES

- The Group's **research and innovation, devoted to product beauty and quality**, enable it to satisfy all the main market segments with a dedicated and high-quality product range.
- The following **principles guide all the Group's daily activities** and represent the fundamental values underlying its company mission:
- **TECHNOLOGICAL LEADERSHIP**
We constantly invest in research, technologies and state-of-the-art facilities to meet every architectural and interior design need with innovative solutions, capable of becoming the industry benchmark.
- **AESTHETIC QUALITY AND EXCELLENCE**
We strive for industrial excellence, from the quality of raw materials to process efficiency, in order to achieve products that combine the maximum aesthetic value with the highest technical performance.
- **RESPONSIBILITY**
We always place people and quality of life at the centre of our attention, with safe, environmentally sustainable products, by operating with the utmost respect for those who work with us.
- **RELIABILITY**
The guarantee of a Group which, from its family roots in the Sassuolo ceramic district to its listing on the Milan Stock Exchange, has grown to become a solid international company, which operates throughout the world while maintaining an Italian core.

VALUES

- **The following principles guide all the Group's daily activities** and represent the fundamental values underlying its company mission:
- **RESPONSIBLE COMMUNICATION AND TRANSPARENCY**
Panariagroup is committed to ensuring transparent company management, communication and information.
- **RESPONSIBILITY AND REGULATORY COMPLIANCE**
The Group, in the course of its business activities, acts in compliance with applicable laws and regulations, as well as with internal regulations and procedures. Compliance with national and international regulations is a binding and essential condition for the Group and it requires all its partners, whether they have a permanent or temporary and direct or indirect relationship with the Group, to ensure that they follow the principles of conduct in the same responsible manner in relations with the Group.
- **ETHICS IN COMMERCIAL RELATIONS**
The Group requires compliance with all the rules and provisions, both national and international, concerning the fight against money laundering and against active and passive corruption.

2.5 ORGANISATIONAL STRUCTURE AND GOVERNANCE

Panariagroup is a public company which, in 2004, joined the MTA, the leading equity market managed by the Italian Stock Exchange, in the STAR (High Requirement Shares) segment.

Its insertion in the STAR segment involved adjustment of the company's organisational structure in accordance with the principles established by the Code of Conduct adopted by Borsa Italiana in March 2006, as well as with international best practices.

Panariagroup's organisational model is based on the traditional model, formed of three corporate bodies: the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The **Shareholders' Meeting** represents all the shareholders. It is the body in charge of making decisions, in ordinary and extraordinary sessions, relating to matters reserved to its competence by law or by the Articles of Association.

The **Board of Directors** manages Panariagroup and pursues the primary objective of creating value for

shareholders, actively working to define industrial strategies and directly intervening in all the decisions relating to the most important management matters, which fall within the Board's exclusive remit. With regard to the Non-financial Consolidated Statement, the Board of Directors ensures that the non-financial statement is prepared and published in compliance with the provisions of Legislative Decree 254/2016, approves the Group's materiality matrix and NFS within the same terms set out for the presentation of the draft financial statements and makes it available to the appointed auditing firm and supervisory body.

Panariagroup's **Board of Directors** is made up of 10 members: four executive directors, three non-executive and non-independent directors and three non-executive and independent directors. Since its establishment, the Board has been led by the Mussini family and it is still chaired by Emilio Mussini, while operational management is entrusted to Giuliano Pini, the Group's Managing Director and CEO.

The Board of Directors pursues the **primary objective of creating value for shareholders** - directly intervening in all the decisions relating to the most important management matters - which fall within the Board's exclusive remit.

COMPOSITION OF THE BOARD OF DIRECTORS AS OF 31.12.2019

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				

2.6 SUSTAINABILITY RISK MANAGEMENT

The presence of non-executive and independent Directors in the Board of Directors aims to **guarantee debate and dialogue between all the Directors** when taking Board decisions, ensuring their compliance with the company's interests and allowing the Board to deal with matters related to sources of potential conflict of interest with sufficient independence.

The Board of Directors also encompasses:

- the **Control and Risk Prevention Committee**: it has a consulting and advisory role and reports to the Board of Directors about its work and the adequacy of internal controls. **The Committee is completely autonomous and independent** both from the CEOs, as regards the issues of safeguarding the company's integrity, and from the auditing firm, as regards the evaluation of the conclusions drawn in their report and in their advisory letter. Furthermore, it examines the Group's materiality matrix and the Consolidated Non-Financial Statement before approval by the Board of Directors;
- the **Remuneration Committee**, in charge of formulating proposals to be brought before the Board of Directors, in 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 available on Panariagroup's 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 Panariagroup's Board of Directors. Panariagroup's Related Parties are: the parent company Finpanaria; the associated company Immobiliare Gemma; the companies under direct and indirect control; the Directors and their families.

The **Board of Statutory Auditors** is in charge of monitoring matters such as respect of the law and of the Articles of Association, correct administration standards, the adequacy of the company's organisational structure, internal control mechanisms and the adequacy of instructions given to the various subsidiaries relating to information that must be provided in order to comply with reporting requirements. Furthermore, it monitors compliance with the provisions established by Legislative Decree 254/2016 and reports its findings in the annual report to the Shareholders' Meeting.

In order to effectively oversee Sustainability issues, Panariagroup has established a "CSR Operating Committee". The **CSR Operating Committee** is in charge of **choices regarding sustainability and corporate social responsibility** and is responsible for coordinating the reporting process of data relating to this Sustainability Report in terms of definition and management of the operational process of non-financial reporting, management of collection and consolidation of data and information on the Group's entire scope (Italy, Portugal, USA and India) and drafting of the document.

The members of this committee are representatives of different business functions: the Group Administration, Finance and Control Department, the Marketing Department and the Engineering, Quality and Environment Department.

With regard to the foreign Divisions (Portugal, USA and India), local contact persons have been identified who deal with the management and supervision of sustainability issues and the non-financial reporting process at local level in order to guarantee direct and active involvement.

Panariagroup has an internal control and risk management system in order to **identify, prevent and manage business performance risks** as much as possible.

The Group has defined a risk management and internal control system, which, together with the policies, procedures and measures adopted and put in place by the Board of Directors, executives and other parties in the company, aims to deliver a **reasonable degree of certainty concerning the fulfilment of targets** in the following categories:

- effectiveness and efficiency of operations;
- 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.

The Group, aware of the importance of non-financial risks, also covered by Legislative Decree 254/2016, has identified the main risk factors that are internally monitored on a daily basis, as reported below.

RISK RELATED TO CLIMATE CHANGE AND ENVIRONMENTAL RISK

The risks stemming from climate change identified by Panariagroup are related to incorrect management of energy sources and emissions, risks related to legislative/regulatory changes associated with the fight against climate change and physical risks, i.e. risks deriving from the progressive change in climate conditions linked to long-term changes and extreme weather events that expose the Group to damage or destruction of "material capital" such as industrial buildings, plants and infrastructure, as well as potential interruptions to essential supplies and potential contraction of production capacity. The Group's facilities, located in Italy, Portugal and the USA, have sufficient capacity, if necessary, to take on the production loads of any sites damaged

by extreme weather events or natural disasters, mitigating the risks associated with predictable climate change and its overall financial implications. **The Group also carries out ordinary maintenance operations using the best prevention and protection strategies**, including with the aim of reducing potential impact on production facilities.

Other environmental risks for the Group are related to the management of water resources and waste, or connected 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.

The Group has adopted an integrated Quality, Environment, Hygiene and Safety management system and a system has been developed for the European offices in compliance with ISO 9001, ISO 14001 and the EMAS Regulation. As required by Legislative Decree no. 152/06 on "Environmental Regulations", the Finale Emilia, Toano and Fiorano Modenese plants carry out production activities in compliance with the Integrated Environmental Authorisation (IPPC Directive - Integrated Pollution Prevention and Control).

General environmental risks are monitored on a daily basis during production and storage activities, which are considered the most significant for the Group, through **monitoring tools of the main indicators linked to potential direct impact** (including, for example, incorrect disposal of hazardous waste, water leaks from production circuits and spills in the local area).

With regard to indirect environmental impact, in 2018 Panariagroup drafted its own Code of Business Conduct in order to promote, along the entire supply chain of goods and services, including suppliers and sub-suppliers (and their employees),

the adoption of behaviours aimed at protecting the environment, **in compliance with standards and regulations in Italy and in the countries of production and delivery**, and in line with the Group's environmental protection principles and objectives, encouraging its suppliers to reduce the environmental impact of their activities and to safeguard natural resources.

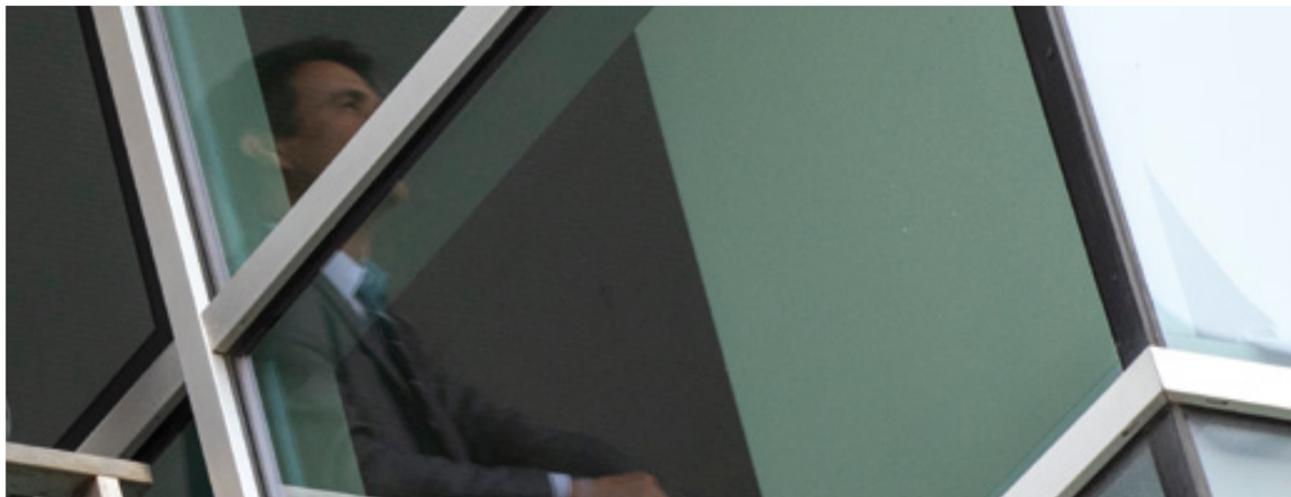
In particular, the Code of Business Conduct calls for adoption and respect, as much as possible, of:

- the precautionary principle, made explicit by principle 15 of the Rio Declaration, which requires the implementation of a precautionary approach in order to protect the environment;
- product life cycle analysis, including packaging;
- emission reduction measures;
- energy saving strategies and where possible the use of renewable energy sources;
- provisions for an environmentally friendly logistics chain;
- water saving programs.

It should be noted that in 2019 **the Group began a supply chain analysis process – based on Environmental, Social and Governance** (hereafter also "ESG") criteria – that considers two variables: supplier risk profile and importance, on the basis of which the suppliers that most expose the Group to indirect risks have been identified. With regard to these suppliers, the Group is committed to initiating a process of monitoring and evaluation of their adopted ESG and quality measures.

RISK OF HUMAN RIGHTS VIOLATIONS

Risks related to violations of human and workers' rights (abolition of child labour, forced labour and protection of freedom of association and collective bargaining) and to potential cases of discrimination. The Group is particularly committed to mitigating its impact in this area, including any indirect impact linked to its supply chain.



In 2018 Panariagroup drew up the Group's **Code of Ethics, which sets out the principles, values and standards of social and environmental responsibility** that guide daily business operations.

Panariagroup is particularly attentive to the management and prevention of such risks, through **compliance with national and international laws and regulations, as well as through Panariagroup's internal rules within all the Group's companies.**

Furthermore, in 2018 **Panariagroup prepared a Group Code of Ethics that defines the principles, values and standards of social and environmental responsibility** that guide daily business actions. This code demonstrates the company's commitment to implementing policies aimed at developing a culture of strong values in terms of ethics, justice and respect for human rights, inspired by the conventions of the International Labour Organization (ILO) and the OECD Guidelines for multinational enterprises, as well as by its participation in the UN Global Compact.

With regard to indirect social impact, **Panariagroup's Code of Business Conduct promotes the adoption of behaviours aimed at protecting human rights**, in compliance with national and international laws and regulations in production and delivery countries, as well as in line with the principles inspired by the ILO Conventions, the OECD Guidelines and the UN Global Compact. This Code requires the following principles to be respected:

- abolition of all forms of exploitation of child labour and forced labour;
- respect for the diversity and religious, political and sexual orientation of individuals;
- respect for rights of association, worker representation and collective bargaining agreements.

Finally, it should be noted that in 2019 **the Group began a supply chain analysis process – based on Environmental, Social and Governance** (hereafter also "ESG") criteria – that enabled it to identify the suppliers that most expose the Group to indirect risks in terms of respect for human rights. With regard to these suppliers, the Group is committed to initiating a process of monitoring and evaluation of their adopted ESG and quality measures.

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

staff and contractors who work at the Group's sites and/or under the Group's control.

At Panariagroup's plants, offices and points of sale, **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, to protect all workers from these risks and to constantly monitor the real situation in the workplace.

Panariagroup has adopted an integrated Quality, Environment, Hygiene and Safety management system aimed at ensuring protection and safety in the workplace. In particular, for the European offices, a system compliant with ISO 9001 and ISO 14001 standards has been developed, which is also compliant with the UNI-INAIL Guidelines for the Italian offices, with the aim of developing and implementing internal procedures to prevent, monitor and manage accidents and incidents at work.

The Code of Business Conduct, aimed at the entire supply chain of goods and services, extends the Group's commitment to health and safety in the workplace throughout the value chain.

RISK OF ACTIVE AND PASSIVE CORRUPTION

Risk related to behaviour or negligence that may lead to the occurrence of cases of corruption along the entire value chain. Since 2009, the Parent Company Panariagroup Industrie Ceramiche S.p.A. has adopted its own **Organisational, Management and Control Model**

231/01, together with a **Code of Ethics**, as a guarantee of the principles and values of ethics and integrity, with particular attention to the issues of active and passive corruption along the entire value chain. In 2019, for the Portuguese BU and the American BU, the information flows to the Italian Parent Company's Supervisory Body were extended to include the Portuguese BU and the American BU, in order to extend their supervision and control of corporate, IT (cyber risk), environmental and health and safety matters (for details see the following "Integrity and Compliance" section).

Furthermore, Panariagroup's Code of Business Conduct requires its commercial partners to:

- avoid any possible conflict of interest in business relations;
- fight corruption in all its forms;
- adopt responsible and transparent communication.

COVID-19 RISK

In early 2020, the appearance of a new coronavirus in China, known as COVID-19, which has rapidly become a global pandemic, is having significant economic and social repercussions.

The Company, as soon as it became aware of the seriousness of this phenomenon, adopted precautionary measures to protect the health of its employees and promptly updated its Risk Assessment Document (DVR) for all Italian plants, adding references to biological risk in accordance with the provisions of Legislative Decree 81/08. Since the biological risk from the Coronavirus



epidemic is not an occupational risk, i.e. directly correlated with Panariagroup's production activities, the DVR has been prepared by mainly focusing on information actions and prevention measures to be adopted in different application scenarios.

On the basis of the DVR and the subsequent "Shared protocol for the regulation of measures to combat and contain the spread of the COVID-19 virus in the workplace" prepared by the Government and Social Partners, **Panariagroup has provided basic information for all its employees and contractors**, including through the display of signage stands at the main transit points. In addition, specific PPE and hand hygiene equipment have been distributed.

It is currently impossible to predict how this phenomenon will develop in the future, but it certainly represents a major threat, not only to public health, but also to the world economy as a whole.

In addition, the Group has identified the following connected risks:

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

For further details, please refer to the "Risk Management" section of the Director's Report in the Consolidated Financial Statement of 31 December 2019.

2.7 INTEGRITY AND COMPLIANCE

The rules of conduct stated in the Code of Ethics contribute to **reinforcing the commitment towards an ever greater responsibility to doing business.**

Ethics and compliance have always been one of the most important issues for both the Group and its stakeholders. Panariagroup has always been particularly sensitive to the need to **ensure integrity, fairness and transparency in all company activities**, thus guaranteeing the protection of its reputation and image in the market and among all stakeholders.

As a listed company, Panariagroup endeavours to ensure maximum compliance with national and international regulations. **In 2009, Panariagroup Industrie Ceramiche S.p.A, the Group's Italian Parent Company, adopted the Organization, Management and Control Model** pursuant to Legislative Decree no. 231 of 8 June 2001. The adoption of the Model, which was updated in March 2018, is a valid tool for raising awareness among all those working in the name and on behalf of Panariagroup and for guaranteeing the principles and values of fairness, integrity and ethics throughout the value chain.

Mapping and analysis of risk areas is a cornerstone of the modus operandi of Panariagroup, which, focusing on prevention, has adopted specific internal procedures and tools with the aim of monitoring, as well as preventing, cases of violation of regulatory compliance with a view to protecting human rights, workers and the company's reputation.

The Parent Company, alongside the adoption of the Model, has appointed a **Supervisory Body** (hereinafter also "SB"), **responsible for performing control tasks regarding the observance, efficiency and effective application of the Model** and its related internal procedures with a view to prevention and to updating the Model.

In 2019, the information flows of the foreign companies (in Portugal and the USA) were extended to the Italian Parent Company's Supervisory Body in order to extend its supervision and control of corporate, IT (cyber risk), environmental and health and safety matters. Procedures inspired by the Parent Company's 231 Model have therefore been adopted in the subsidiaries, as well as a compliance program to which subsidiaries must adhere, ensuring a constant flow of information that promptly reports risk situation details to the Parent Company. The Parent Company's Supervisory Body has therefore extended its internal monitoring and verification role to the subsidiaries with respect to the matters mentioned above, with the possibility of directly carrying out specific control actions on the individual Departments, Functions, Local Areas and Group companies. Furthermore, **in 2018, Panariagroup formalised a Code of Ethics identifying the set of values, behavioural regulations and principles of corporate ethics that Panariagroup embraces, orienting its decision-making processes around these values.**

With regard to ethics and integrity in business conduct, the Group:

- requires compliance with both national and international anti-money laundering rules and regulations;
- is committed to combating all forms of active and passive corruption by promoting a culture of legality in all business contexts;
- is committed to maintaining ethical behaviour in business relationships with third parties.

The rules of conduct stated in the Code of Ethics, which the work of all the Group's companies is based on, contribute to reinforcing its **commitment towards an ever greater responsibility to doing business with attention to social, environmental and ethical matters, as well as to the fight against active and passive corruption.**

In relation to the latter, it should be noted that for both 2018 and 2019 there were no cases of corruption in the Panariagroup Group that led to the dismissal of employees or measures whereby contracts with business partners were terminated or not renewed due to corruption-related violations. Furthermore, during the reporting period, there were no incidents of corruption-related public lawsuits brought against the Group or its employees.

It should also be noted that for both 2018 and 2019 there were no pending or concluded legal actions concerning anti-competitive behaviour, violation of antitrust regulations and related monopoly practices in which the Group was identified as a participant. Furthermore, in 2018, with the aim of promoting responsible commercial practices in terms of ethics and integrity, as well as social and environmental

responsibility, the Group prepared **its own Code of Business Conduct, as a guideline for a sustainable and responsible supply chain.**

This Code is part of a process of selection and monitoring of the Group's supply chain that requires verification of criteria related to the soundness, competitiveness and cost-effectiveness of the supplier, as well as of ethical, social and environmental responsibility criteria, which are fundamental prerequisites for the development of a lasting and transparent business relationship.

For both 2018 and 2019, there were no significant fines¹⁰ and non-monetary sanctions for non-compliance with environmental laws and regulations, nor was there any non-compliance with regulations and/or self-regulatory codes regarding product information and labelling and/or regarding the impact on the health and safety of products that resulted in a sanction, fine or warning from supervisory bodies.

Finally, in relation to non-compliance with laws and regulations in the social and economic area, it should be noted that in 2019 Panariagroup received 4 notices of assessment (referring to the years 2014, 2015, 2016 and 2017) relating to alleged irregularities in the calculation of the TARI waste tax, for a total value, including penalties and interest, of 0.6 million euro; the Company opened a legal dispute to contest the documents received.



¹⁰ Only monetary sanctions of a significant amount, i.e. of a value greater than 10,000 euro, are taken into consideration.

ECONOMIC
RESPONSIBILITY

3

3.1

THE GROUP'S ECONOMIC RESPONSIBILITY

Panariagroup's history is rooted in an **area that is internationally renowned** for porcelain stoneware production. The Modena and Reggio Emilia areas, and specifically the Sassuolo area, are home to numerous companies whose core business is the production of ceramic surfaces. It is **the perfect context in which to grow an entrepreneurial project** that aspires to the highest quality and manufacturing excellence.

Over the years, parallel to the economic development of the area, the technical ability of ceramic workers, who have begun to settle here, has also increased exponentially.

Panariagroup has **always remained firmly rooted in its native land** and proudly **represents "Made in Italy"**. Indeed, products developed in Italy are key to its financial success. The Group considers it fundamental also to **support the prosperity of the areas in which it operates, maintaining employment levels**, promoting relations with local communities and creating shared value. Even when operating outside Italy, Panariagroup has also maintained, over the years, a strong local identity, supporting the economic and social

development of the areas in which it operates (not only in Italy, but also abroad, in the Aveiro area in Portugal and Lawrenceburg in Kentucky).

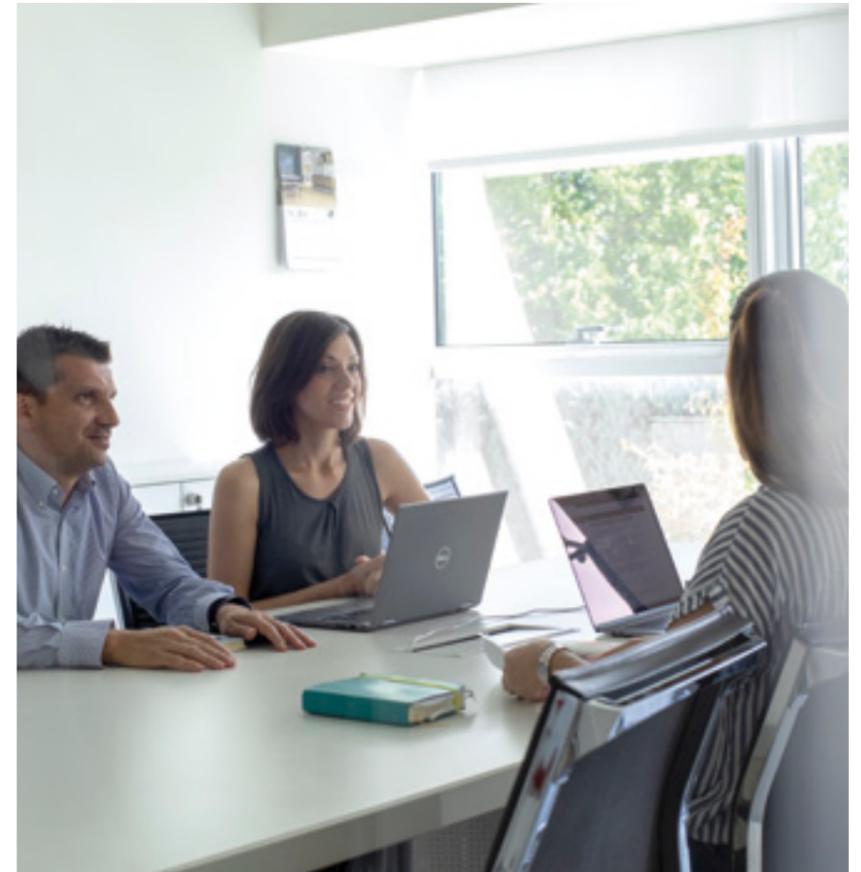
Connected to the local community but also focused on national and international dynamics, the Group – partly due to its presence on the Stock Market – is always aware of its responsibility towards its current and potential shareholders and to financial institutions.

The Group is constantly committed to achieving development objectives aimed at **guaranteeing an increase in the company's value**, through appropriate reinvestment of profits and, depending on its financial results, an equally appropriate dividend policy to directly remunerate shareholders.

In order to maintain a constant exchange of information with the national and international financial community regarding the Group's management, **an Investor Relations body has been established** to manage the relationship with these important stakeholders.

The Group has a continuous relationship with investors and analysts from the financial

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



community and is committed to transparent communication regarding the obligations resulting from its 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 shareholders is available.

Panariagroup carried out various activities related to investors and financial stakeholders in 2019. In particular:

- participation in an **event dedicated exclusively to companies in the STAR segment**, organized by Borsa Italiana in Milan in March 2019, to meet the Italian financial community.
- **constant and continuous dialogue with Credit Institutions.**

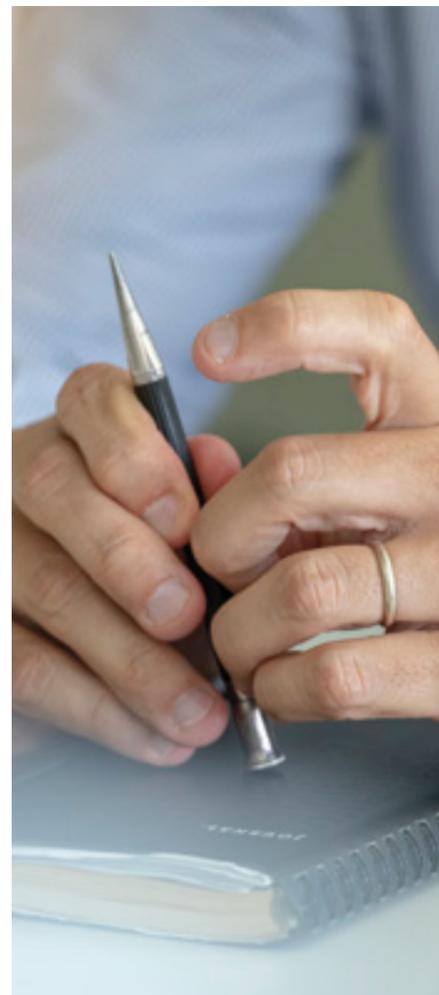
- **dedicated meetings with investors, at company sites**, aimed at raising awareness about the company and the Panariagroup Group's production facilities.

The issues of greatest interest to investors during the year were business development, the competitive environment, investments and competitive advantage factors relating to the sector. Investors increasingly view the Sustainability Report as a way of further consolidating the company's position in the mid-high range of listed companies.

3.1.1 GENERATED AND REDISTRIBUTED ECONOMIC VALUE

The economic value generated represents **the wealth produced by the Group, the majority of which is distributed to the stakeholders** with whom the Group interacts in its daily operations.

The classification of Generated Economic Value shown below reveals how the value created by the Group is distributed to the various stakeholders.



	2019 thousands of euro	2018 thousands of euro	DIFFERENCE thousands of euro	CHANGE %
PAYMENTS TO SUPPLIERS	271,882	265,874	6,008	2.3%
EMPLOYEE WAGES AND BENEFITS	96,225	93,705	2,520	2.7%
PAYMENTS TO FINANCIERS	4,440	4,103	337	8.2%
PAYMENTS TO SHAREHOLDERS	0	0	0	0%
PAYMENTS TO PUBLIC ADMINISTRATION	-3,065	-2,450	-615	25.1%
PAYMENTS TO COMMUNITY	241	263	-22	-8.4%
RETAINED IN THE COMPANY	30,922	30,817	105	0.3%
ECONOMIC VALUE GENERATED	400,645	392,312	8,333	2.1%
ECONOMIC VALUE DISTRIBUTED	369,723	361,495	8,228	2.3%

A comparison with the previous year shows an increase in the Generated Value of 8.3 million (+2,1%), which resulted in a higher Distributed Value of approximately the same amount while the Value retained by the company is in line with the previous year. With regard to the Economic value distributed, the most affected stakeholders were the public administration and shareholders, while the value distributed to

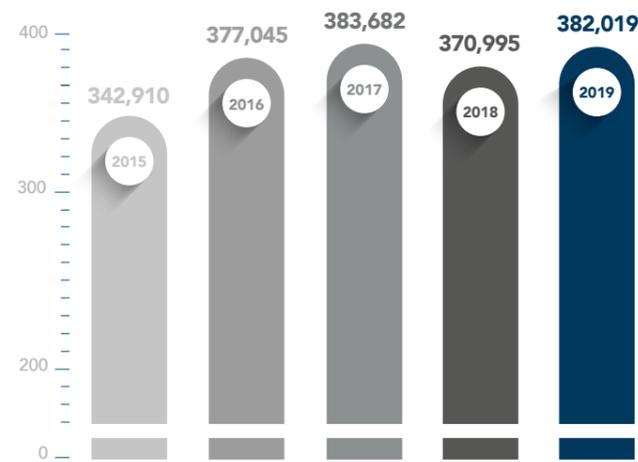
suppliers, staff and backers increased. The negative remuneration of the public administration is related to the negative economic performance in the financial year, which led to recording of deferred tax assets for tax losses recoverable in subsequent years. The negative economic performance also led to the decision not to distribute dividends to shareholders, on the grounds that it was more appropriate to maintain the Group's capitalisation intact.

3.2 2019 FINANCIAL RESULTS

The 2019 financial year saw a recovery in revenue growth, which had stalled in 2018, following the very positive three-year period 2015-2017.

TURNOVER FROM 2015 TO 2019

Data in thousands of euros



The increase in sales is more significant when compared with the performance of Italian competitors which, overall, suffered a 0.7% drop in turnover according to recent surveys by Confindustria Ceramica. The Italian Business Unit (+2.0%) and the US Business Unit (+7.3%) reported growth in turnover, while the Portuguese Business Unit reported a slight decrease (-2.8%). Trends varied in the different geographical areas, with growth in Europe (+2.6%), the USA (+7.1%) and Asia (+8.0%), while sales on the Italian market declined (-2.8%), as well as on the Africa and Oceania markets (-9% overall), which are marginal for the Group.

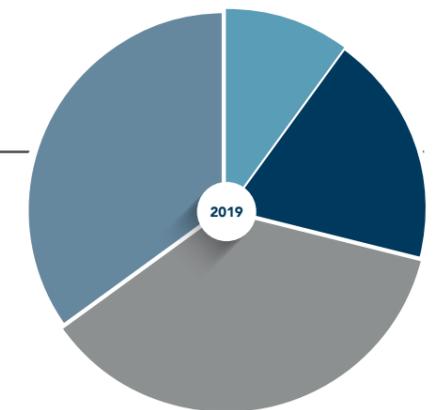
On the **European markets**, the Group's turnover increased compared to the previous year with an overall growth of 2.6%.

In EU countries, the best results were achieved in Germany, Great Britain and Portugal. Over the years the Group has managed to establish itself in this latter market as the most important player in the sector and continues to rapidly grow. The French market, another key market, recorded a turnover in 2019 that was broadly in line with 2018. Good progress has also been made in Eastern European Countries with an overall growth rate of 8%. The impact of the European markets on total revenues was 36%.

Turnover on the **US market** grew by 7% in euro; this trend can be partly attributed to the strengthening of the dollar against the Euro (+5%), and partly to an actual increase in turnover (+2%). In a market in which ceramic consumption

2019 BREAKDOWN OF TURNOVER

- 36% Europe
- 35% USA
- 19% Italy
- 10% Other



was down 3.5% (source: TCNA), there was added pressure from Spanish and Chinese competitors, which adversely affected other exporting Countries and local producers, especially in the mass retailing channel. The impact of the US markets on total revenues was 35%.

On the **Italian market**, the Group's sales fell by 2.8% and the market remained stagnant. Despite the slight downturn recorded in 2019, we are still a leading player in the domestic market, which puts us in a position to detect any signs of recovery in the construction sector. The impact of the Italian market on total revenues was 19%.

The **other markets** (Asia, Canada, South America, Oceania and Africa) grew by about 1%. In Asia, good results were achieved overall; the decline in sales in the Middle East, due to political and economic tensions, was more than offset by the outstanding results in the markets of the Far East.

On the Australian market, the Group, while confirming its strong presence in terms of market share, recorded a significant drop in turnover, as

did the African markets, in which there has been a reduction in the construction of "major works" (airports, shopping centres, tourist accommodation, etc.), which for our Group, which operates at the top end of the range, are the main destinations for ceramic products in these areas. The impact of the "other markets" on total revenues was 10%.

The turnover of the Group's foreign markets is equal to 81% of the total, with the share of non-European markets equal to 45% of total turnover.

In view of the different market trends that define our sector every year, we can affirm that the Group, thanks to the balanced distribution of its activities in the most important high-end world markets that distinguish its internationalisation profile, is able to maintain diversified sales and a local coverage strategy, including from a production and logistical standpoint, which certainly represent an important strategic asset.

OPERATING RESULTS

Consolidated gross operating profit came to 32.4 million euro, representing 8.1% of the Value of Production (31.7 million euro as at 31 December 2018, equal to 8.1% of the Value of Production). The improvement in EBIT is due to different trends between the Business Units, with growth in the Italian and American Business Units and a decline in the Portuguese Business Unit.

With regard to the **Italian Business Unit**, the initiatives designed to recover profit margins, which had significantly decreased in 2018, began to have their first noticeable effects. Despite the difficult and competitive market environment, the commercial policies adopted yielded positive results, with an increase in turnover combined with stable sales prices. In addition, structural costs have been reduced: Panariagroup's operational top management structure has been streamlined and simplified and commercial costs have been cut. The rise in energy tariffs, which had heavily impacted the whole of 2018 and the first part of 2019, was also halted; the contracts signed suggest a significant reduction for the whole of 2020.

The **Portuguese Business Unit** maintained positive profitability, but with a significant decrease compared to the previous year. The lower margin can be attributed, on the one hand, to the fall in turnover, which was not sufficiently offset by commercial cost savings, and, on the other, to the further increase in energy tariffs, which were already a major burden in 2018. On this front, however, the Portuguese BU will also benefit from significant savings in 2020.

The **US Business Unit** achieved improved results compared to 2019, while remaining at unsatisfactory levels of profitability.

The financial result of the American BU was heavily shaped by only partial use of production capacity until August, which however made it possible to significantly reduce the level of inventories. The significant sales growth in the Home Centres channel, with a considerable impact on sales volumes, will make it possible, in 2020, to ensure optimal use of the Lawrenceburg plant at full capacity, with an expected economic benefit thanks to the greater absorption of fixed costs.

The consolidated net operating loss was 4.9 million euro (4.2 million euro in 2018). Depreciation and amortisation, including that deriving from rights of use and provisions, have increased compared to 2018 by 1.4 million euro, with a significant increase in EBIT. The total value of the "Financial income and expense" item, equal to 4.6 million euro, includes, in addition to financial expenses "in the strict sense" (2.5 million euro), exchange gains (0.2 million euro) and the financial component of "leasing" contracts (in compliance with IFRS 16), amounting to 2.2 million euro. The negative change compared to 2018 is largely due to "exchange rate management", which was characterized by a very positive trend in the previous year. The impact of this item on the Value of Production, equal to 1.2%, remains low. The **Consolidated net result** was a loss of 6.4 million euro (loss of -5.1 million euro as at 31 December 2018).

PERFORMANCE OF MAIN BALANCE SHEETS

Net Working Capital

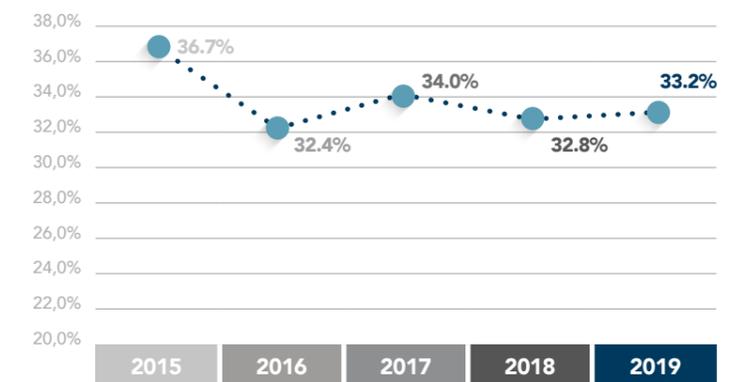
Net working capital as of 31 December 2019 amounted to 127 million euro, up 4.2% compared to the previous year, slightly higher than revenue growth.

The value of inventories increased by 2.7% compared to the same period of the previous year, broadly in line with revenue performance. With reference to the other items that make up the net working capital, we continue to record a healthy DSO ratio and a reduced incidence of overdue receivables.

The NWC/Revenues ratio remains very similar to previous years:

NWC/ REVENUES RATIO 2015-2019

● % NWC of revenue



Non-current assets

Non-current assets decreased by 13.3 million euro since the beginning of the year, from 255.8 million euro to 242.5 million euro, due to the following:

- Investments in the period totalling 14.6 million euro, of which 6.2 million euro made in Italy, 5.9 million euro in Portugal and 2.5 million euro in the United States;

- Amortisation and depreciation for the period of 22.3 million euro;
- Higher value of fixed assets expressed in euro of the US sub-consolidation, due to the appreciation of the US currency with respect to the end of 2018, amounting to 0.8 million euro;
- Goodwill for the consolidation of Panariagroup India for 0.3 million euro;
- Reduction in the value of the Right to Use leasing contracts for a total of 6.7 million euro.

3.3

INVESTING IN INNOVATION

Panariagroup's identity has always been strongly connected to manufacturing of the Group's brands' products in its plants, with a constant policy of innovation, technological updating and efficiency improvement. Even in years of increased economic uncertainty, the Group continued to invest in its industrial

sites in order to maintain its position in the small group of pioneers in the industry. **In the last five years, the Group has always invested consistently**, as shown in the following table:

INVESTMENT PER YEAR	TOTAL (millions of euros)	% OF REVENUE
2015	38.2	11.1%
2016	38.1	10.1%
2017	34.4	8.9%
2018	19.2	5.2%
2019	14.6	3.8%
TOTAL 2015-2019	144.5	7.8%

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

INVESTMENTS FOR BUSINESS UNIT	ITALY	PORTUGAL	USA	GROUP
<small>Data in millions of euros</small>				
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
2018	10.3	6.5	2.4	19.2
2019	6.2	5.9	2.5	14.6
TOTAL	60.6	38.7	45.2	144.5
% OF TOTAL	42%	27%	31%	100.0%
% OF TURNOVER	6.3%	11.2%	6.8%	7.8%

Following considerable investment over the course of the 2015-2017 three-year period, involving measures to develop production and logistics capacity, in the following two years, partly in view of the slowdown in revenue growth, more targeted measures were taken to **improve efficiency, modernise technology** and **adapt plants** for product range extensions. A new cycle for the renewal and technological advancement of the Group's plants is planned, starting in 2020, which will be particularly focused on the Italian Business Unit.

A "continuous line" will be installed at the plant in Finale Emilia (Italy). This is a particularly innovative technology which boasts higher productivity compared to traditional lines and which will enable significant expansion of the range of formats that can be produced, while also guaranteeing improved efficiency in gas and electricity consumption. The innovative nature of this investment, associated with specific Research and Development activities, is evidenced by the inclusion of the project in the FRI - Sustainable Industry - Large Companies call for tenders, approved by the MISE Concession Decree in November 2018. In the Finale plant, there are also plans for the installation of a plant supervision system, interconnection with the production lines and CE certification of these lines; these technological updates will enable **management of the factory based on an "Industry 4.0" model**. In this regard, in 2020 the Toano (Italy) and Aveiro

and Ílhavo (Portugal) plants will also undergo a 4.0 evolution, and this is expected to be extended to the Group's other plants in the following year.

Particularly significant measures are also planned at the Fiorano Modenese site, which is dedicated to producing large-format slabs. An extension of the covered area is underway here with the aim of achieving more efficient internal processing, internal handling of semi-finished and finished products and optimisation of warehouse stocks.

Investments are also planned to enhance the internal processing lines (grinding, cutting and polishing) at the Aveiro (Portugal) and Lawrenceburg (USA) sites; the increased amount of processing carried out without using external suppliers results in significant economic savings and a positive environmental impact, reducing material transportation.

At the American plant, there is also a plan to install a mill for recovering fired waste, increasing the use of this waste in the preparation of mixes; this measure will lead to **economic savings and a significant reduction in raw material consumption**.

Over a longer time frame, a well-defined business plan has been drawn up and will be implemented in individual steps, taking into account its financial sustainability and the actual return on investment.

PRODUCT
RESPONSIBILITY

4

4.1 PRODUCT QUALITY, DESIGN AND SUSTAINABILITY

Technological innovation is key to Panariagroup for achieving new goals in the production of porcelain stoneware tiles and with regard to the environment. The Group's product range **combines the ancient art of ceramic with the most advanced standards** for floor and wall coverings, offering specific solutions for any kind of application, from large commercial surfaces to residential use.

At its plants, Panariagroup produces ceramic porcelain stoneware or monoporosa (single-fired) tiles. In particular, the porcelain stoneware ("grès porcellanato") denomination refers to an extremely compact, dry-pressed ceramic product characterised by excellent technical specifications (high mechanical strength and resistance to wear, chemicals and stains) and very low porosity. Due to these characteristics, **the product**, during the firing stage (at a temperature of over 1,200° C), **reaches complete vitrification**, acquiring extremely low water absorption properties and consequently frost resistance, making it suitable for outdoor installation.

Panariagroup is also a leading company in the production of laminated porcelain stoneware, a revolutionary product manufactured with an extremely innovative system, the result of a very

advanced and high-performance technology. Panariagroup's laminated stoneware allows the creation of tiles characterised by reduced thickness (as little as 3mm), produced in whole 100x300 cm and 120x260 cm slabs without the use of moulds. Completely automated cutting lines enable the creation of various commercial formats. Extraordinary attention to quality during every step of the production cycle is another defining characteristic of Panariagroup's products: from the choice of raw materials to the next-generation industrial facilities, certifications and after-sales service. This all goes hand in hand with our **sustainability choices**, which represent a **continuous stimulus for innovation and process improvement**.

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, starting in 2010, **a growing line of antibacterial products, thanks to the exclusive PROTECT technology**. These products represent a solid guarantee for lifestyle improvement.

Panariagroup develops products through an outstanding process coordinated by the



Group's Product Development Department, which aims to select the best market trends and to further develop them through qualified research and to the highest standards in order to generate concepts for new collections. This process leads to the market launch, very efficiently and effectively in terms of time to market, of products that are increasingly able to meet the most advanced customer expectations.

Panariagroup products are created in an environment that is also highly devoted to design and maximum aesthetic performance: **the beauty of the materials draws on both strong internal research skills and maximum enhancement of the expertise of external partners**, as well as important collaborations with international designers. **Particular care is taken over the aesthetic detail and surface finishes of the products**, which thus obtain outstanding visual and tactile properties. The extraordinary quality of Panariagroup products is also reflected in the numerous awards that the Group has won over the years.

In over 40 years of business, the Group's management team has consolidated **exceptional skills and ceramic culture, which are expressed in the development of new ideas and in the finished product**, constituting a major asset in the creation of high-quality collections. This is demonstrated by Panariagroup's countless references around the world, where **its products have been chosen for extremely prestigious architectural works**, confirming the aesthetic and technical value of the Group's materials:

collaborations with leading names in architecture and design and important partnerships that have resulted in projects (residential, commercial and large public works) and installations, as well as products designed by top international designers. The Group thus confirms its ability to support complex projects, thanks to its structure as a large manufacturing company and to the expertise of its team, with the ability to control and modulate its output to satisfy even the most complex orders.

In particular, in 2019 products manufactured by Panariagroup and its brands were chosen for the **Headquarters of Generali Group Academy in Trieste**, designed by Mario Bellini Studio, the **Nuovo Picchio Social Health Centre, San Felice sul Panaro (Modena)**, designed by Mario Cucinella Architects, **the Rearth Inc. Headquarters in Bucheon (South Korea)**, the **Uptown Milan and Green Opificio** residences in Milan, chef Heinz Beck's prestigious **Attimi restaurant** designed by Studio Novembre, and numerous other projects in the Middle East and Far East, including a contribution to the creation of the **Sustainability Pavilion at Expo 2020 in Dubai**. Kerlite products by Cotto d'Este were also selected for the **MIA kitchen** series produced by Scavolini, a leading Italian company in the sector, and designed by renowned chef Carlo Cracco.

The value of Panariagroup's skills and technology is also demonstrated by the major production work for other ceramic operators which have been turning to the company for several years to develop products for their catalogue.

4.2 OUR BRANDS

Panariagroup's brands, which have increased over the years to the current eight, all boast an equally strong international reputation and excellence from both an aesthetic and technical point of view. **Each brand has a specific and distinctive character**, but they are all designed and developed to respond to the needs of a clientele which, though diverse, **demonstrates a particular attention to the quality**

and aesthetic style of the products. Below is a brief description of each Panariagroup brand: all the brands operate in the ceramic sector for floors and walls and position themselves in the high-end and luxury segment of the market, but each has its own characteristics and peculiarities. It should be noted that the incorporation of the Fiordo brand into the Panaria Ceramica brand became effective on 1 January 2019.



Panaria
ceramica

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

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.

COTTOD'ESTE
Nuove Superfici

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.

Blustyle
by COTTO D'ESTE

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
CERAMIC TILES

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
STILE ITALIANO

BELLISSIMO is a specific brand for 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

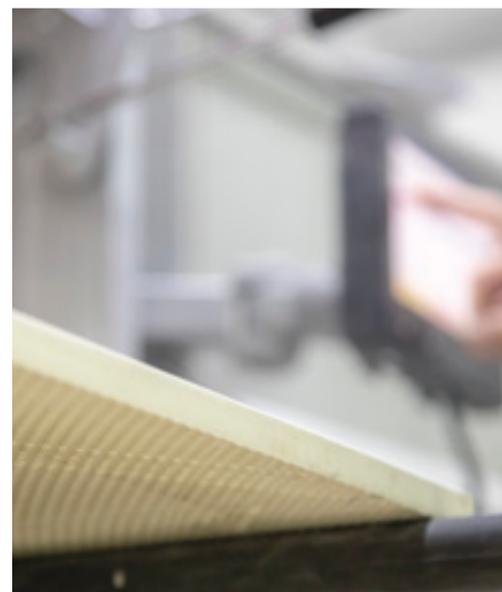
Over the years, the Group has constantly evolved and it is now one of the most advanced players in its industry. One of the main factors behind Panariagroup's success is its **continuous Research and Development**, which aims to identify new manufacturing techniques and innovative product lines that can meet the needs of an increasingly discerning and diverse clientele. Panariagroup has **an important research centre that employs highly qualified** technicians, engineers, architects and researchers, all driven by a desire to constantly study new solutions in order to enable the Group to successfully compete in the ceramic floor and wall coverings sector, maintaining its position as a market leader.

Process and product innovation is a constant target for Panariagroup and this is reflected in all its plants in Italy, Portugal and the United States. Development and evolution of the production lines, continuous research and excellence in the selection of raw materials variety and richness in surface

applications are a constant process and a daily challenge. The Group had the foresight **to invest in innovative technologies such as laminated porcelain stoneware**, a revolutionary product that Panariagroup has focused on for over 10 years, leading to record sales all over the world and constant innovation capable of reinterpreting and evolving this technology for increasingly ambitious projects.

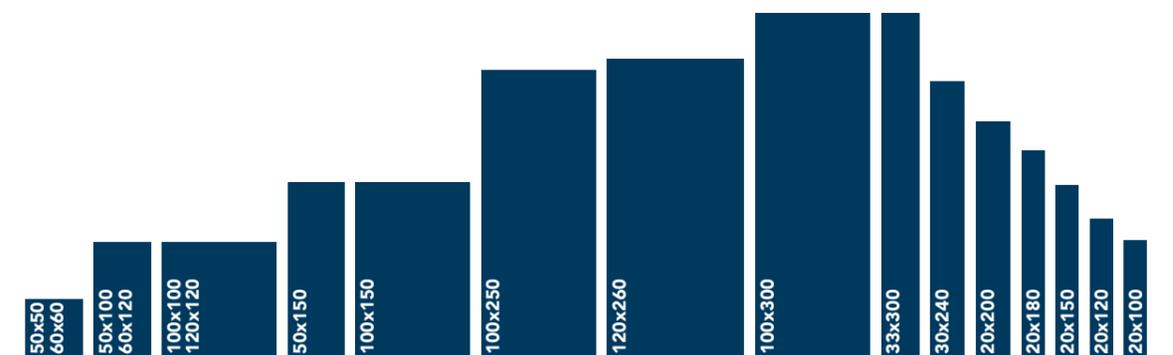
This has allowed Panariagroup to complete its range of thin materials with an extensive and important **set of formats and thicknesses**, produced using a winning and distinctive technology.

Panariagroup's laminated porcelain stoneware also stands out for its **high environmental performance** when compared to standard 10 mm thick porcelain stoneware. This is a further concrete demonstration of the Group's commitment to constant research into eco-friendly products.



SUPERIOR QUALITY THIN CERAMIC SLABS

Large-sized laminated porcelain stoneware: a light, resistant and versatile product for new design perspectives in the world of architecture and housing.



6mm
THIN AND
RESISTANT

3 PLUS

5 PLUS

6 PLUS

ULTRA-THIN AND
ULTRA-RESISTANT WITH FIBREGLASS
MESH REINFORCEMENT

MOREOVER OUR SLABS ARE

- **Thin, light** and suitable for renovation projects
- **Easy** to work with, handle and lay
- **Flexible** (minimum radius of curvature up to 5 metres)
- Perfectly **flat**
- **Reliable**, thanks to our experience in supplying this product globally for over 10 years
- Available in a **wide range of big sizes**
- With the exclusive antimicrobial **PROTECT®**

All processes are executed and managed in-house, from the application of the fibreglass mesh to polishing and rectification.

WHY OUR SLABS ARE OF SUPERIOR QUALITY

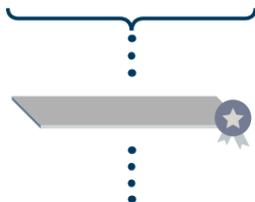
1

ONLY THE **FINEST** RAW MATERIALS



POWDERS **3 TIMES SUPERIOR** TO TRADITIONAL ONES

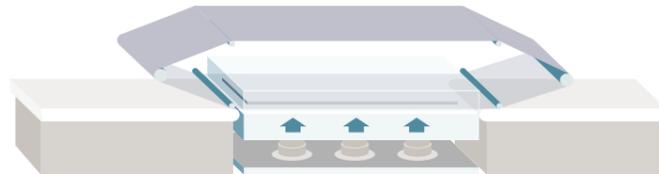
ONLY **HIGH QUALITY BASE MATERIALS** ARE USED, NO RECYCLED MATERIALS



HIGHEST STANDARDS IN **QUALITY AND PERFORMANCE**

2

UNIQUE PRESSING PROCESS DIRECTLY ON CONVEYOR BELT

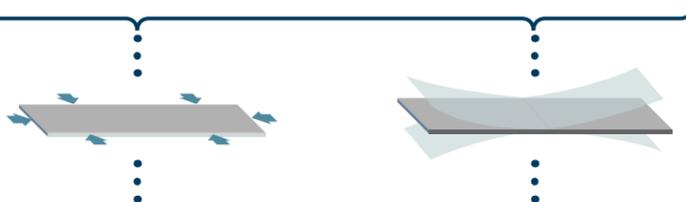


MATERIAL IS PRESSED FOR MORE THAN **1 MINUTE** ON THE STATIONARY SLAB

PRESSING FORCE UP TO **27.000 TON**

EVEN PRESSURE ON THE WHOLE SURFACE

COMPLETE DEAERATION VACUUM EFFECT



MORE **COMPACT** SLABS

MORE **ELASTIC** SLABS
Minimum radius of curvature up to 5 metres

3

EXCLUSIVE SURFACE PROCESSING TECHNOLOGIES

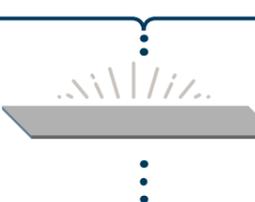


HIGH DEFINITION OF STRUCTURES

GREAT DEPTH OF THE GRAPHIC EFFECTS

HIGH STANDARDS IN COLOUR YIELD AND WHITENESS

MAXIMUM SURFACE SHINE AND EASY TO CLEAN

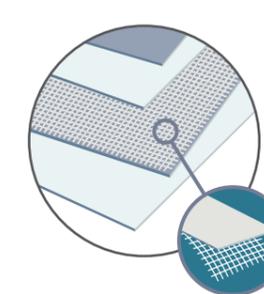


EXCELLENT AESTHETIC YIELD OF THE PRODUCTS

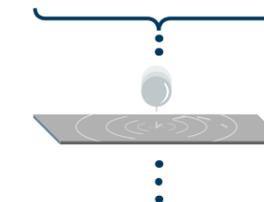
4

APPLICATION OF THE **FIBREGLASS MESH**

Available on a wide selection of products



FIBREGLASS MESH ON THE REAR OF THE SLAB



EXTRAORDINARY ADDED RESISTANCE

5

ENVIRONMENTAL SUSTAINABILITY



OUR PRODUCTION PROCESS REDUCES BY

-65% THE CONSUMPTION OF RAW MATERIALS

-80% THE CONSUMPTION OF WATER

-30% THE CONSUMPTION OF ENERGY

-30% CO₂ EMISSIONS IN THE ATMOSPHERE

-66% POLLUTION CAUSED BY TRANSPORT

The data refers to a 3,5 mm thick product when compared to a 10 mm thick porcelain stoneware tile

Antibacterial PROTECT® surfaces guarantee a **continuous protection** that improves people's lifestyles and living conditions.

Another concrete example of the **Group's innovative ability is the development of PROTECT®**. Since 2010, Panariagroup, thanks to the constant work of its Research Centre, has established technological and commercial leadership in the antibacterial products segment, developing a line of very high performance ceramic surfaces with Microban, a world leader in antibacterial technology applied to multiple sectors and products. Evidencing the growing demand for products with these technical specifications, in 2019 the Group sold around 3,400,000 m² of PROTECT products worldwide.

The PROTECT antibacterial surfaces have been designed by Panariagroup with a real silver ion antibacterial shield incorporated in the ceramic product, which eliminates up to 99.9% of bacteria from the surface and guarantees

continuous protection night and day. Unlike other technologies, it is not an organic treatment applied to the finished product (such as waxes or resins): **PROTECT®'s antibacterial protection is permanently integrated into the products during the industrial firing process.** It cannot be removed by washing, it does not wear out and it actively protects the entire surface throughout the product's life cycle.

PROTECT® is guaranteed by the partnership with Microban®, a world leader in antibacterial technology that boasts partnerships with hundreds of brands, and each new collection is tested to officially certify its antibacterial properties in recognized international laboratories.

Thanks to a constantly protected surface, high hygienic performance and resistance to wear and



weather conditions, **PROTECT® makes it possible to improve people's lifestyles and living conditions.**

The technology based on silver ions, which is permanently integrated in the tile at the time of firing, blocks the metabolism of bacteria, eliminating them and preventing their proliferation.

Consequently:

- **tiles are more hygienic and easier to clean:** the degree of product cleanliness can be visibly improved with antibacterial technology, which does not replace normal cleaning procedures, but facilitates and completes them, making them less expensive and achieving a better level of protection between one clean and the next.
- **the technology also eliminates what you cannot see:** thanks to antibacterial technology, growth of bacteria can be significantly limited on floors, walls, kitchen tops, etc.
- **less bacteria and less odours:** the presence of bacteria can cause unpleasant odours and reducing bacteria reduces these odours.

With PROTECT® Panariagroup confirms its role as a responsible company since the use of this product brings the benefits of antibacterial technologies to various domestic and non-domestic environments, including, in particular, public places such as healthcare facilities, restaurants, airports and schools, where preventing contamination is essential. Being able to offer very high-quality antibacterial materials is **increasingly important when responding to ever more selective specifications and therefore receiving orders, as well as for meeting end consumers' growing demand for health-oriented products.**

In addition, **a new product line was launched in 2019**, which will make its market debut in 2020. Geared towards the furnishing accessories segment, **Maxa Ceramic Slabs** is a range of large slabs with a high thickness (12 mm) and a 160x320 format.

P R () T E C T ®

The exclusive Panariagroup technology for antimicrobial floor and wall coverings with the highest performance. To live healthy, safe and secure.



POWERFUL ACTION

Eliminates microbes and prevents their reproduction



CONTINUOUS PROTECTION

Always active, 24 hours a day, with and without sunlight



ETERNAL EFFECTIVENESS

Thanks to the technology permanently integrated into the product



GUARANTEED QUALITY

by the partnership with **MICROBAN®**

4.4 CUSTOMER SATISFACTION

Customer satisfaction goes hand in hand with our drive towards innovation and sustainability. The company's innovation is based on constant experimentation which, thanks to the development of cutting-edge production systems and technologies, allows Panariagroup to offer its customers a wide range of top-quality products that are positioned at the top of the market thanks to **their excellent technical performance and design.** The synergy between products, research and design results in a selection of products that can satisfy a wide range of project requirements, always with a focus on **sustainability and better aesthetic coordination with architecture and furnishings.**

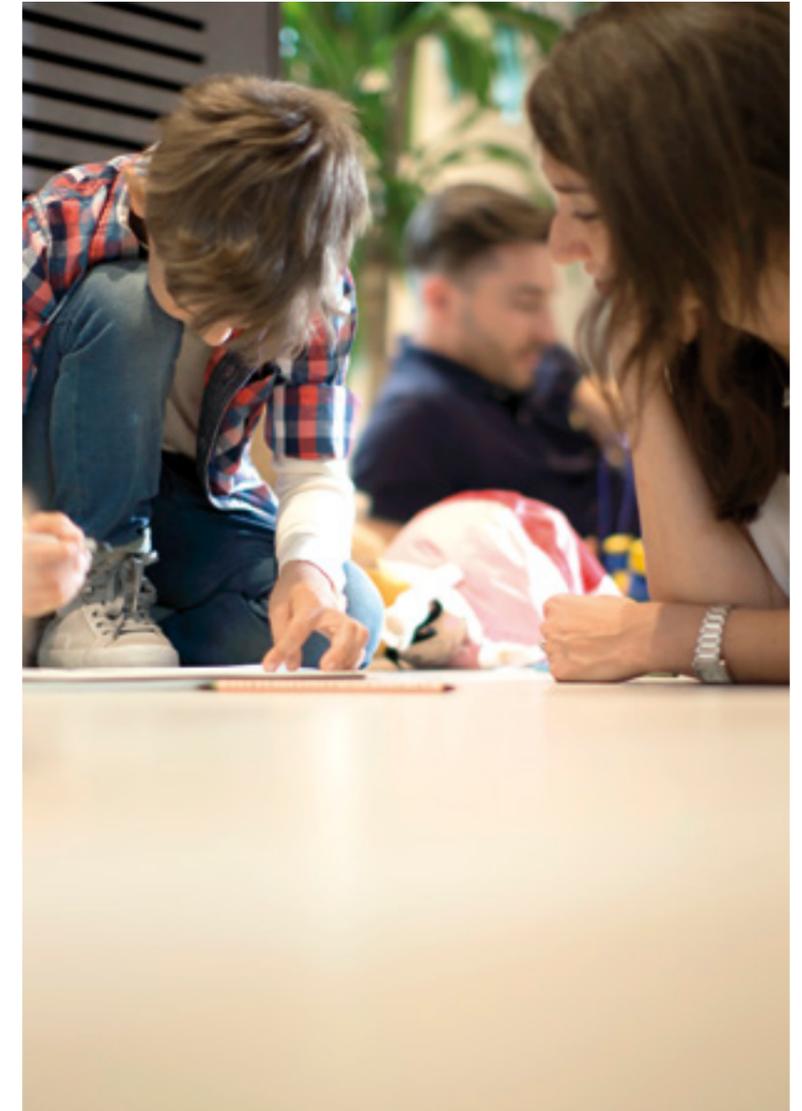
Panariagroup operates with very high quality parameters, which are reflected in its outstanding supply standards: complaints about sold products represent just 0.43% of total turnover (2018¹¹ figure). Additionally, the Group is committed to the management of an **attentive and scrupulous after-sales service**, which is constantly updated with increasingly advanced monitoring and response tools. In this regard, firstly in the ceramic sector, Panariagroup has developed, starting from the

Italian Business Unit, **the VIS service**, an innovative Sales Force Automation system **that allows the sales force to perform real-time monitoring of the quality of its product supplies** and to guarantee customers fast and complete responses in case of any problems. This is managed by advanced digital tools (a specific app for smartphones and tablets and a web system for managing data and processes).

The service has been very successful: over 1,300 instances were handled in 2019 and there is a plan to extend it to the Portuguese and American Business Units.

In addition, Panariagroup provides its commercial partners with in-depth technical expertise on the use and application of materials, through information tools (technical manuals), with thorough staff training and specific training sessions, both at the company's sites and in customers' premises: **in 2019, around 1,000 people visited the Fiorano laminated porcelain stoneware plant, while 1,084 attended in-depth technical sessions on ceramic slabs at the company headquarters and over 800 attended sessions off-site in Italy and abroad.**

Panariagroup operates with **very high quality standards**, which are reflected in its outstanding supply standards.



One of Panariagroup's distinctive elements is its ability to face any commercial challenge not only with a wide range of brands, to cover all market segments, but also with structures dedicated to serving specific channels or geographical areas in the most targeted and complete way. This enables Panariagroup to pursue one of its fundamental principles, namely **maximum attention to customer care.** We want to satisfy our customers with a solid and reliable organisation, as well as with flexibility and the ability to respond to any need.

Vertical organisations that aim to broadly cover markets and retail distribution are supported

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

Panariagroup also offers **the services of a division (the Contract and Key Account Division) specialized in the relationship with particular customer segments** such as designers, professional offices, architects, etc., with a sales team and a design and service unit that can efficiently and specifically respond to all the needs of these specific targets on a global scale.

11. At the date of publication of this document, data for 2019 are currently being processed.

4.5 SYSTEM CERTIFICATIONS

Panariagroup has adopted a **quality management system certified according to ISO 9001** which extends to all commercial divisions and services.

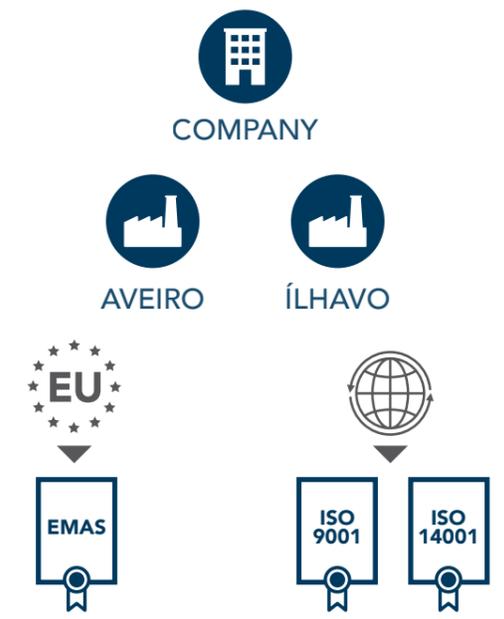
This is further evidence of the Group's commitment towards ethical, environmental, safety and quality issues.

CERTIFICATION	DESCRIPTION	FIELD OF APPLICATION	PANARIAGROUP ITALIA	GRES PANARIA PORTUGAL
	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 ÍLHAVO
	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 ÍLHAVO
	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 ÍLHAVO

PANARIAGROUP ITALIA



GRES PANARIA PORTUGAL



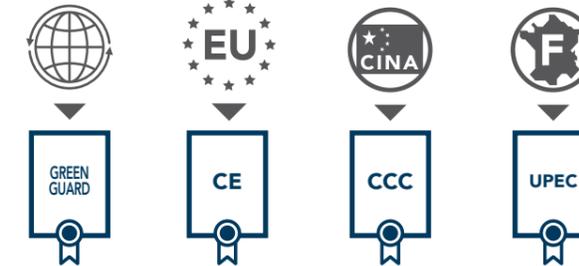
4.6 PRODUCT CERTIFICATIONS

Below are the certifications obtained by Panariagroup for the products sold by the Group's companies operating in Italy, Portugal and the

United States, reflecting the **Group's considerable attention and sensitivity towards ethical, environmental, safety and quality issues.**

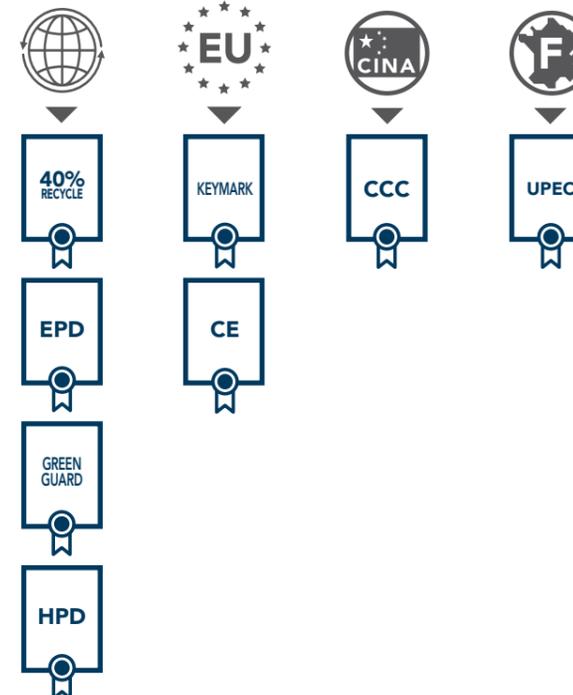
CERTIFICATION	DESCRIPTION	FIELD OF APPLICATION	IT	PT	US
	UPEC is a product certification issued by the French institution CSTB, verifying the technical suitability of the products related to their intended use.	FRANCE	●	●	
	The CE mark is a safety certification required by the European Union with the intention of safeguarding health and safety.	EU	●	●	
	The KEY-MARK and the Certiquality-UNI marks confirm that the certified products are compliant with the EU laws regarding ceramic tiles.	EU	●		
	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	●	●	
	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	●		●
	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.	WORLDWIDE	●	●	●
HPD	Panariagroup has adopted the HPD (Health Product Declaration) open standard, recognized by USGBC LEED, created to encourage attention to people and consumers through reporting of product characteristic and information on health risks of all those involved in the project.	WORLDWIDE	●		●
	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			●
	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	●		●

PANARIAGROUP USA



GRES PANARIA PORTUGAL

PANARIAGROUP ITALIA



FOCUS ON SUSTAINABLE RENOVATION

Increasingly, modern architecture and growing consumer awareness require solutions that minimise the impact of renovation.

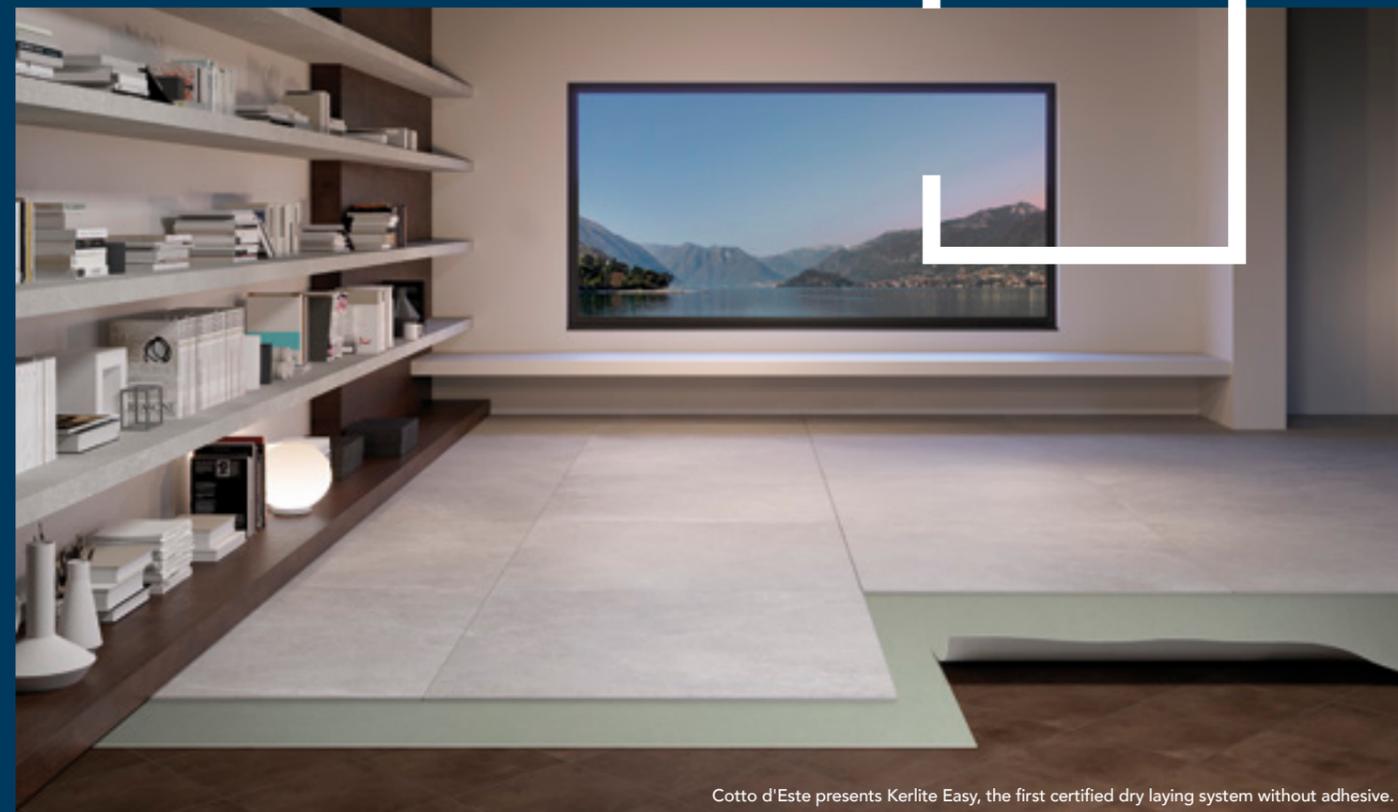
As part of a circular economy approach, it is becoming increasingly important to focus on **innovation that minimizes waste and scrap, while at the same time allowing the use of products with a proven sustainability matrix.**

Panariagroup **was the first ceramic group to introduce the innovation of ultra-thin laminated porcelain stoneware slabs**, which, in addition

to being a revolutionary product in terms of technical features and versatility of application, offer an **exceptional response to the demand for easy, fast and impact-free renovation work.**

The slabs can be applied **on top of existing floors**, making it possible to install them without any masonry work. So there is no dust, waste and debris, making it possible to very quickly **change the surfaces in a space, significantly cutting costs.**

In terms of sustainability, this is an extraordinary advantage, considering, among other things,

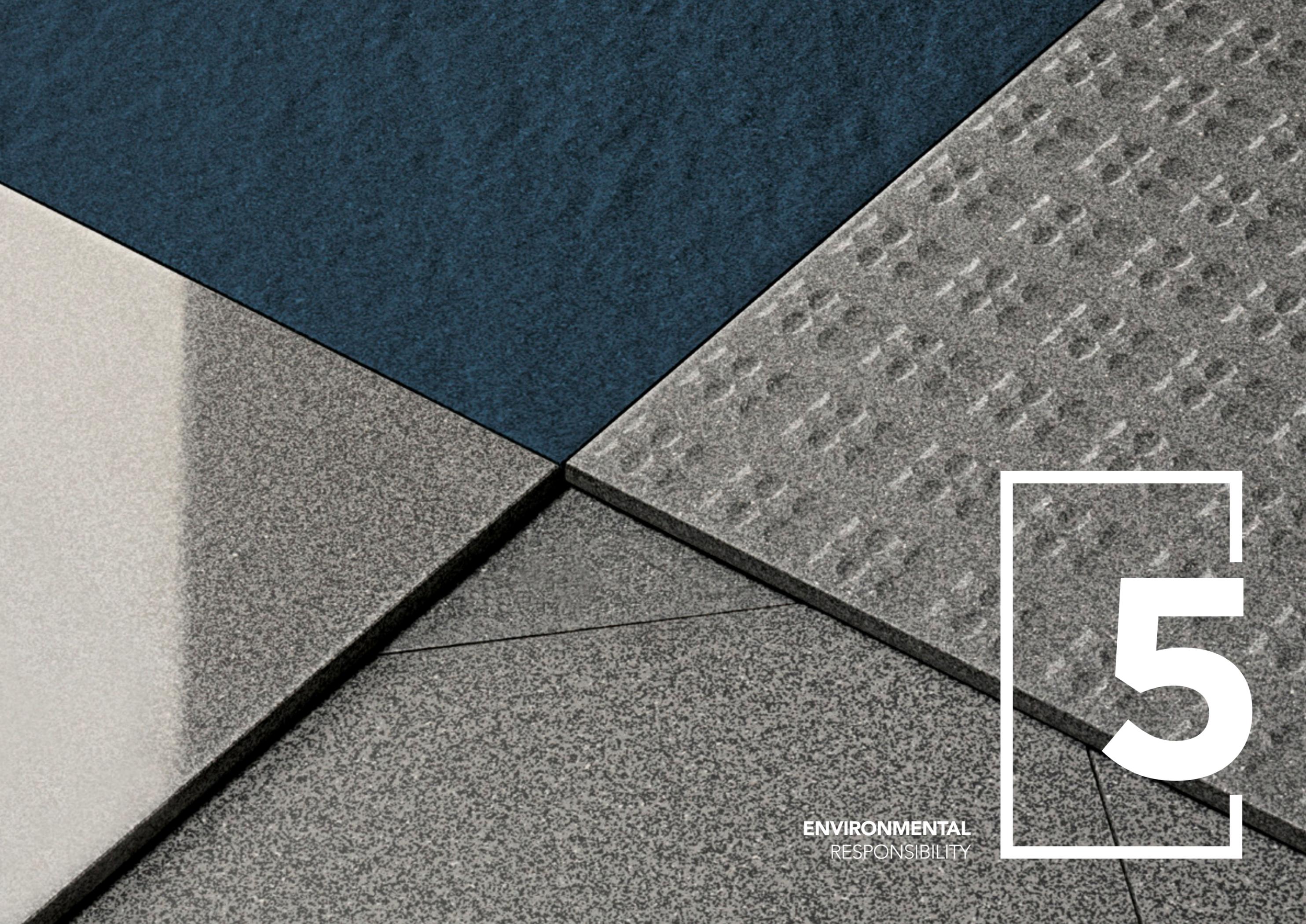


Cotto d'Este presents Kerlite Easy, the first certified dry laying system without adhesive.

the high impact that building waste generally has on the overall production of waste, as demonstrated by numerous studies, including those produced by the European Commission.

Not to mention the **impressive sustainability characteristics of laminated porcelain stoneware**: its production cycle allows significant reductions in energy, water and raw material consumption, in emissions and in transport impact. Moreover, there is a proportion of recycled material from other production processes in Panariagroup ceramic material, which can be as high as 40%.

Finally, Panariagroup is about to launch another sustainable resurfacing innovation, namely a **new dry laying system** without adhesive that will make it possible not only to lay ceramic slabs on top of existing floors, but also to do so **without gluing the new materials**, meaning that **the material can be replaced and recovered** (and the existing floor can be preserved).



**ENVIRONMENTAL
RESPONSIBILITY**

5

5.1 ENVIRONMENTAL RESPONSIBILITY

Always at the vanguard in skilfully combining beauty, quality and sustainability, Panariagroup works every day to reduce the environmental impact of its plants to a minimum, demonstrating its commitment to ecosystem conservation and to researching the best housing comforts. **This is a vital and essential commitment, especially for those who create products that millions of people all around the world encounter in their daily life, at home or in public places.** The Group considers the aspects related to environmental impact and to safety and hygiene at the workplace to be of fundamental importance. Consequently, the policy adopted to manage the Group's activities is based on strong and precise principles:

- 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 regulations regarding Safety and the Environment through ongoing and rigorous inspections;
- managing, preserving and, where possible, reducing the use of natural resources, through research

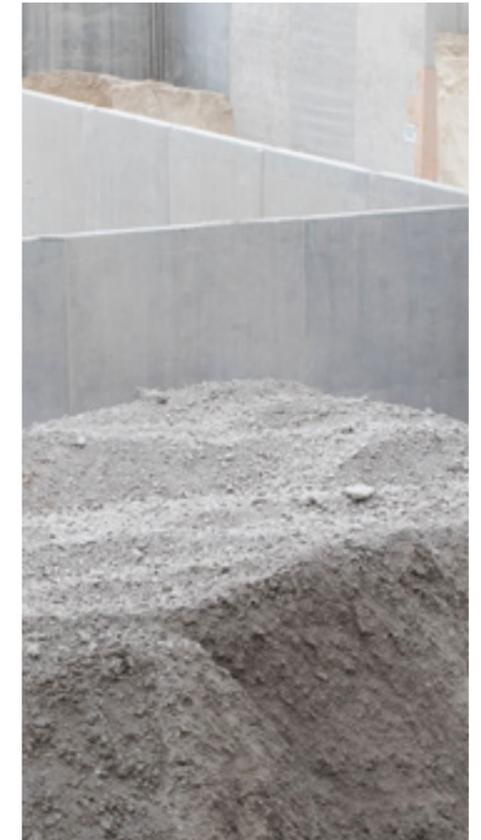
and development activities focused on the use of recycled material and on energy efficiency policies;

- constantly improving its environmental approach to keep the production of pollutants and the consumption of resources to a minimum;
- providing constant information and maintaining an ongoing collaboration with the population and with public organizations regarding the environmental policies adopted, including the release of the EMAS Environmental Statement and the 2016 Sustainability Report.

Such principles are of paramount importance because they drive Panariagroup both at a management and strategic level and in terms of operational management of individual plants, with the ultimate aim of **constant improvement of environmental performance at all management levels.**

Conscious that in the ceramic tiles for floor and wall coverings production sector, environmental awareness is increasingly a critical factor for success, **the Group has demonstrated, year after year, a true green philosophy that manifests itself at every level.**

Panariagroup works every day to **reduce the environmental impact of its plants** to a minimum, demonstrating its commitment to ecosystem conservation and to researching the best housing comforts.



Everything is designed and created with the highest respect for the environment, from the architectural design of the production plants, which are in perfect harmony with the local area, to the careful control procedures at every stage of product processing.

As a testament to the central role that environmental sustainability plays for the Group, all the production plants in Europe, all highly automated and integrated, have achieved the ISO 14001 and EMAS environmental management certifications. The EMAS declaration reports on environmental performance and the pre-established improvement objectives. It is published annually on the company websites for the Italian and Portuguese production plants. Additionally, Panariagroup compiles the annual AIA report, as required by the Integrated Environmental Authorisation, for the Italian production sites, containing environmental performance data and specific performance indicators.

The raw materials used in the production processes in Panariagroup plants are constantly monitored, **in full respect of the environmental standards set by the law. Likewise, production waste is reused to a large extent, with a significant reduction in the use of new natural raw materials.**

Every product then undergoes strict and accurate quality control and every collection is classified according to specific characteristics established by the law relating to ceramic tiles. Most of the collections have the requirements for obtaining credits from the main building certification systems, such as LEED. The Group is very attentive to regulatory changes regarding ceramic tiles and its technicians monitor regulatory updates by participating in technical committees in associations or internationally through participation in ISO committees.

FOCUS ON

WATER, A PRECIOUS RESOURCE TO SAFEGUARD



Panariagroup pays the utmost attention to all the variables with an environmental impact. One of the most delicate of these is certainly water, for which the company has a large and constantly increasing number of initiatives.

It should also be noted that the most innovative materials made by Panariagroup, namely **thin laminated porcelain stoneware slabs**, enable a **further reduction in water consumption of up to 80%**, further demonstrating this technology's extraordinary environmental performance. This extremely low water impact should of course also be assessed in comparison with other products with much higher water consumption (e.g. meat, coffee or knitwear production).

It should be added that **all the water used in the production cycle by Panariagroup is recovered, purified and reused** both in the production process and in plant cleaning operations. This allows a reduction in water consumption throughout the production cycle of up to 80%.

However, Panariagroup wanted to go further, and in 2019 it embarked on an ambitious project to convert its employees' water consumption. **Purified drinking water dispensers** were installed at all of the Italian and Portuguese Business Units' locations, allowing them to completely **eliminate the use of disposable bottles**, which were not only a potential source of water waste, but were also responsible

for significant plastic consumption. Employees of Panariagroup and Gres Panaria Portugal were therefore able to stock up on water during working hours, using either their own containers or the reusable water bottle or glasses provided free of charge by the company. This was accompanied by an awareness campaign also aimed at commercial targets, involving the creation of a thermal water bottle as a promotional gadget that was distributed

during the Cersaie 2019 fair, supported by a digital #buildresponsibly campaign that conveyed the main sustainability messages of the company's products and processes.



5.2 MANAGEMENT OF NATURAL RESOURCES

Panariagroup has chosen to take a stand in defence of the planet. It has done so and continues to do so every day with concrete actions, investing in the most advanced technologies and production choices focused on eco-sustainability. Because after all, despite being the result of a complex and advanced industrial process, **ceramic is a natural product.** A simple recipe of earth, fire and water produces a tough, versatile, practical and hygienic product with a high value in terms of beauty and design. **It is even more natural when the production chain has a responsible dialogue with the environment** by reducing

the need for raw materials, recycling water and processing waste and using high-efficiency plants. This reduces the ecological footprint that industrial production leaves on the planet.

According to Panariagroup, **a sustainable management is expressed at its highest level in every production cycle,** starting from a concept of quality that considers constant research and respect for the environment to be among its distinctive features. Compliant for years with environmental protection and eco-sustainable development regulations, **the Group has always believed in**



the possibility of combining improvement of the production process with ever-increasing product quality and a focus on improving quality of life and environmental impact.

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

performance even further and to promote topics related to workplace safety and hygiene. For the Italian and Portuguese plants, the specific details of these objectives are set out in the EMAS Environmental Statement. The Group's performance and objectives are set out annually in the Sustainability Report.

The production chain has a responsible dialogue with the environment
by reducing the ecological footprint that industrial production leaves on the planet.

5.3 RAW MATERIALS

GLAZE

Glazes are composed by the following materials:



- Clay dust
- Quartz
- Alumina
- Natural pigments
- Frit

RAW MATERIALS

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



- Clay
- Sand
- Feldspar
- Colored pigments

AUXILIARY ADDITIVES

The main auxiliary additives are:



- Binding agents
- Fluidising agents

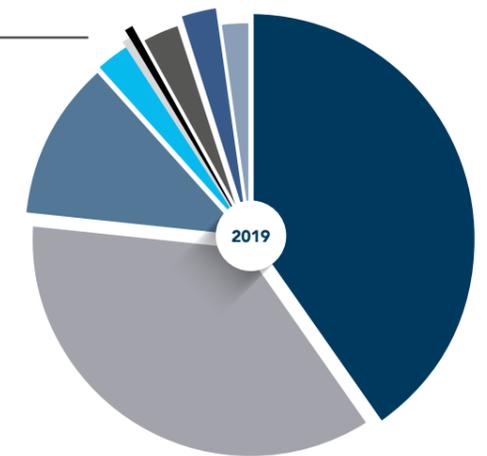


The chart below shows the main **raw materials used by the Group in 2019**. The chart reveals that most purchases

are of clays and feldspars. In 2019, the Group reduced the purchase of spray-dried powders to zero.

RAW MATERIALS USED IN 2019

- **40.43%** Clays
- **36.28%** Feldspars
- **11.78%** Sand
- **2.59%** Glazes and colouring agents
- **0.31%** Zirconium/Whitening agents
- **0.63%** Additives
- **3.14%** Ground fired material
- **2.63%** Packaging
- **2.21%** Other



Panariagroup has always shown great respect for the environment, purchasing, where possible and in line with the preliminary material for its business, renewable raw materials.

In the Italian Business Unit, **in terms of packaging for ceramic, all wood is purchased from PEFC or FSC certified suppliers, about 70% of purchased paper is recycled and the plastic used contains 35% recycled material.** Both the glaze class and the class relating to raw materials for the mixture – which

nonetheless contain natural materials such as clays, feldspars and sands – were considered as non-renewable materials.

With regard to the foreign sites, the American Business Unit uses almost 800 tons of corrugated cartons for PEFC or FSC-certified packaging, which accounts for more than 20% of total packaging. Finally, it should be noted that Gres Panaria Portugal does not currently use materials from a renewable source.

5.4 THE PRODUCTION PROCESS

The first phase of the production process is the delivery and storage of raw materials, such as clays and feldspars mixed with sands, kaolins and silicates. These raw materials are extracted from quarries, through a process that generally takes place outside.

The production of tiles begins, therefore, from grinding of the raw materials that are delivered to the plant and stored in separate and easily identifiable boxes located in covered areas.

The mixture at the basis of the production of stoneware is obtained by mixing these raw materials, and mostly contains a clay part, which has a plasticising role, an inert part (sand) with a structural and thinning role to limit shrinking and expansion during the firing phase and a feldspar part with a melting role, allowing, during the firing stage, the creation of a vitreous phase, thus helping to make it more compact (vitrification).

Before they are stocked, all raw materials undergo a series of checks in order to verify the compliance of the analysed features with the specifications agreed with suppliers.

An interesting aspect from an environmental perspective is the recycling of raw and fired waste during production. Raw waste may come from the spray-drying, pressing or glazing stages, while fired waste may come from the selection and rectifying/lapping phases. **In all of the Group's plants, 100% of raw waste is recovered in the production process.** In the plants located in Italy and the USA, 100% of fired waste is reintroduced into the ceramic mix. The factories located in Portugal are working to achieve the same goal.

Finally, in terms of circular economy, **at the end of their life cycle ceramic tiles can be fully recycled as a foundation for buildings or roads, or easily disposed of like any other inert material.** However, it should be noted that Panariagroup products are characterised by their durability, so they may last as long as the building in which they are installed and for much longer periods than any other coverings.

In all of the Group's plants, **100% of raw waste is recovered in the production process.**



5.5 ENERGY AND EMISSIONS

Panariagroup plants mainly use electricity, natural gas and diesel fuel. In 2019, the Group consumed a total of 3,157,091 GJ of energy, an increase of 1% compared to the previous year, of which 1,976 GJ was from renewable sources and 3,155,115 GJ from non-renewable sources. Compared to 2018, there were insignificant increases in the purchase of electricity and in the consumption of fuel for industrial vehicles and of natural gas, along with a

slight decrease in LPG consumption. The figures directly reflect the efficiency improvement measures carried out by Panariagroup over the years, which have made it possible to consolidate operational efficiency that enables the Group to maintain constant energy performance, **confirming its focus on monitoring and minimizing environmental impacts, particularly those related to energy consumption and emissions.**

YEAR	ENERGY INTENSITY ¹² (GJ/m ²)
2018	0.139
2019	0.139

YEAR	EMISSIONS INTENSITY ¹² (tCO ₂ e/m ²)	
	SCOPE 1 + SCOPE 2 (LOCATION BASED)	SCOPE 1 + SCOPE 2 (MARKET BASED)
2018	0.009	0.010
2019	0.009	0.010



12. See footnote 4, p. 12, of this document.

197 tCO₂

Emissions avoided in 2019 thanks to the photovoltaic installations at Fiorano Modenese, Finale Emilia and Sassuolo

3,157,091 GJ

Total energy used by the Group in 2019

Panariagroup constantly **invests in improving energy efficiency in its plants.** Every year, energy saving projects carried out by companies which, like Panariagroup, have decided to significantly reduce the environmental impact of their activities, allow GSE (Energy Service Management) to award TEE (Titles of Energy Efficiency, also called White Certificates) in accordance with Legislative Decree of 20 July 2004, based on energy consumption compared to the sector benchmarks. Furthermore, in 2013, Panariagroup's 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/EC.

Thanks to the plant design and installation choices made by Panariagroup in recent years, which have

enabled us to achieve important results in terms of energy performance and therefore savings in methane gas consumption, all the company's production sites have been able to comply every year with ETS requirements, returning the CO₂ quotas to the control authorities without ever having to purchase quantities in excess of the quotas provided free of charge by the European Community. This important result has been achieved thanks to constant research, which has always been undertaken by Panariagroup at all its production sites, for innovative solutions to increase energy efficiency.



152,797 tCO₂e

Direct emissions in 2019 (150.484 tCO₂e in 2018)

58,849 tCO₂

Location-based indirect emissions in 2019 (55.596 tCO₂ in 2018)

65,108 tCO₂e

Market-based indirect emissions in 2019 (68.311 tCO₂e in 2018)

Three photovoltaic systems were installed at the Italian plants of Finale Emilia, Fiorano Modenese and Sassuolo, respectively 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, enabling them to produce electricity for internal consumption and to reduce CO₂ emissions. Thanks to these systems, **the Group avoided emissions of 197 tons of CO₂¹³ in 2019**, an increase of 3% compared to 2018. Finally, one of the outstanding elements in the production plants located in Italy (in Toano and Finale Emilia) is the system for recovering smoke from the furnaces inside the spray-drying facilities, leading to a reduction in the use of thermal energy.

With regard to energy consumption, it is important to note that in relation to most other covering materials (parquet, natural stone and cork), it takes less energy to produce porcelain stoneware, partly thanks to modern systems and to its very high durability.

In 2019 Panariagroup carried out an energy audit of its Italian plants in order to comply with the requirements of Legislative Decree no. 102/2014.

An energy audit is a systematic procedure designed to provide adequate knowledge of the energy consumption profile of an industrial plant, to identify and quantify cost-effective energy saving opportunities and to report on the results. The audit, besides being an obligatory service for the parties involved, is useful for customers in determining recommendations for the reduction of energy consumption. It aims to assess the presence and technical and economic feasibility of measures to reduce this consumption.

Atmospheric emissions are a significant environmental aspect for Panariagroup's business. In fact, the production process and related activities result in the emission of substances into the atmosphere that require purification treatment, in particular during the tile firing phase.

With regard to greenhouse gas emissions, the slight decrease in the consumption of natural gas and LPG led to a reduction in direct greenhouse gas emissions in 2018, compared to 2017. However, indirect greenhouse gas emissions, associated with the purchase of electricity, saw an increase due to the decreased consumption of electricity produced from renewable sources. Scope 2 emissions were calculated using two different approaches: "Location-based" and "Market-based". The "Location-based" approach involves the use of average emission factors relating to specific national energy production mixes of electricity (for the emission coefficients used, see the relevant tables in the "Appendix" section). The "Market-based" approach involves the use of emission factors defined on a contractual basis with the electricity supplier. In the absence of specific contractual agreements between the Group's Companies and the electricity

supplier (e.g. purchase of Guarantees of Origin), the emission factor relating to the national "residual mix" is used for this approach (for the emission coefficients used, see the relevant tables in the "Appendix" section).

Compared to 2018, the Group's direct and indirect emissions figures have remained almost constant and demonstrate **proven efficiency within Panariagroup's operational processes.**

Furthermore, with regard to emissions, it should be noted that the production of laminated porcelain stoneware, one of the products on which the Group has strongly focused in recent years, requires reduced use of energy and has a lower environmental impact. Comparing the emissions impact of laminated porcelain stoneware and porcelain stoneware, **a significant reduction in the CO₂ emitted into the atmosphere can be observed¹⁴.**

13. The avoided CO₂e emissions were calculated with the location-based method (Source: Terna, International Comparisons, 2017 with emission factor gCO₂/kWh for Italy).

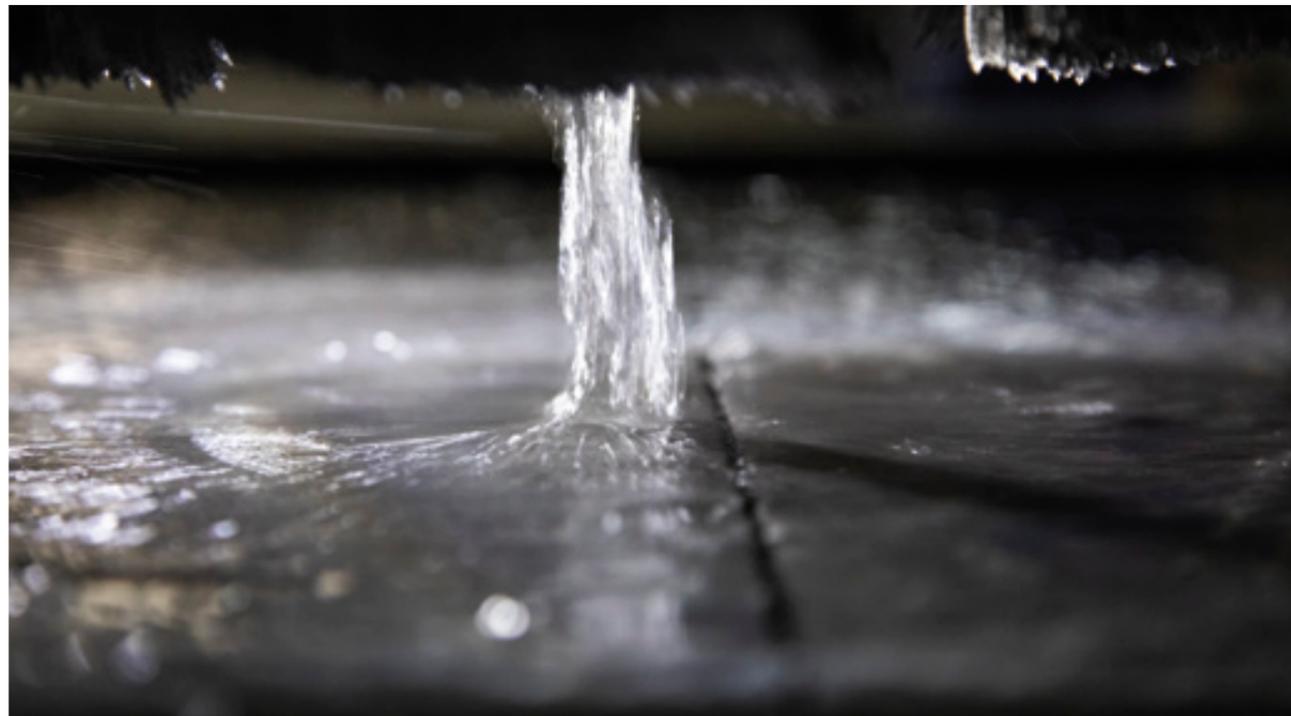
14. Values obtained from the processing of Panariagroup's EMAS data and the ICE and ECO-BAU database for porcelain stoneware, which include the energy consumption values for the extraction of raw materials (source: EPDs of products of the same thickness).

5.6 WATER

Water is an essential component of the ceramic production cycle and in Panariagroup's plants water use is mostly concentrated in the phases of grinding of raw materials, preparation of the semi-finished products for glazing, washing of machinery – in particular of mills and glazing lines – and finally during the operations of lapping, cutting and rectifying the fired tiles. The production plants are supplied with groundwater from the wells. Drinking water, which comes from the water supply networks, is mainly used for civil services in both logistics centres and production plants. The water used in the production process is entirely reused, which means that the Group has no wastewater from production.

In terms of water resource management, **the Group has always focused on minimizing the environmental impact of its production activities and its water withdrawal has remained fairly stable compared to the previous year.**

In 2019, the total water withdrawal from production sites was just over 450 megalitres, an increase of 1% compared to 2018, as highlighted in the data in the "Appendix" section of this document.



The Panariagroup production plants in Italy **reuse 100% of the water in the process**, thus reducing the consumption of natural water resources by up to 80%.

Starting from 2019, **Panariagroup will monitor the location of its production facilities in relation to water stress areas**, i.e. areas of land that cannot meet water demand, both human and ecological. Water stress may refer to water availability, quality or accessibility. To identify areas potentially exposed to water risk, in line with GRI reporting standards, the **Group used the "Aqueduct Water Risk Atlas" tool**, developed by the World Resources Institute. The analysis showed that **none of Panariagroup's 6 production facilities is located in water-stressed areas.**

Panariagroup has also identified and evaluated environmental aspects and risk factors, including those related to water resources, **using a special index – Significance Index – according to a methodology developed by the company** and reported in the EMAS Environmental Declarations annually prepared by the Group for its European production sites. The company is committed to constantly monitoring environmental performance linked, among other things, to the Significance Index, with a view to continuous improvement.

Finally, it is important to highlight how **the Panariagroup production plants in Italy reuse 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 generally much lower than the volume of total water required in the production processes. Most of the water is reused during processes, thanks to specific technologies. Specifically, the company uses purification plants to subject wastewater to a chemical-physical purification treatment. Once the purification cycle is completed, part of the water is normally reused in the process of grinding the mixtures and glazes used in the production cycle, while the remaining part is used as washing water for glazing lines or mills in the Glaze Grinding department.

The water recovered this way creates a sort of "closed cycle" since it is reused in the same production processes. The only water drained outside the production site is water from the toilet facilities (in very low quantities), which is considered as industrial waste comparable to civil waste and is therefore discharged into public sewers.

It is important to note that the laminated porcelain stoneware tiles produced by the Group – the result of the Group's commitment to research and innovation – require approximately 80% less water than porcelain stoneware tiles.

5.7 WASTE MANAGEMENT

The waste produced in Panariagroup's plants is assigned, for recovery or – in a minimal percentage – for landfill disposal, to external agencies authorised according to the current laws. Management of the waste, during its temporary storage inside the plants, takes place in special

storage areas in compliance with internal procedures and current regulations.

In 2019, the Panariagroup Group produced 70,694 tons of waste, of which 243 tons were hazardous waste (0.34% of the total).

WASTE ¹⁵	2019			
	ITALY	PORTUGAL	USA	TOTAL
RECOVERED/RECYCLED (t)	51,293	15,029	300	66,622
OF WHICH HAZARDOUS (t)	64	7.9	-	72
DISPOSAL (t)	1,072	0.4	3,000	4,072
OF WHICH HAZARDOUS (t)	171	0.4	-	171
TOTAL (t)	52,365	15,029	3,300	70,694
OF WHICH HAZARDOUS (t)	235	8.3	-	243
PERCENTAGE OF HAZARDOUS WASTE	0.45%	0.06%	0.0%	0.34%

Most of the waste produced is recycled, amounting to about 66,622 tons (more than 94% of total waste), and only a small proportion is disposed of. All data on waste management is shown in this document's "Appendix" section.

Compared with the data reported in 2018, it should be noted that the Portuguese Business Unit continued to record a significant decrease in waste for disposal.

In recent years, Panariagroup has generally recorded a significant decrease in terms of the quantity of waste produced, thanks to the high rate of recovered products and the efficient use of raw materials throughout all the production stages.

0.34%

Percentage of hazardous waste compared to the total waste produced by the Group in 2019 (0,28% in 2018)

70,694 t

Waste produced by the Group in 2019 (69.031 t in 2018)

94.2%

Percentage of waste sent for recovery compared to the total waste produced by the Group in 2019 (94,5% in 2018)

As regards the production of sewage sludge, one of the main items on the list of waste produced by the production plants, **an important environmental project has been completed at the Finale Emilia and Toano sites.**

Wastewater from departments for the preparation of pastes, grinding and glazing were previously sent to a physical-chemical purifier that produced purified water, subsequently used in production, and ceramic sludge which, once filter-pressed, was sent away for recovery.

Following modification of the plant, the wastewater 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, bypassing the purification stage. This modification has led to a **significant decrease in the production of waste** (filter-pressed sludge) sent to external companies authorized for material recovery.

Panariagroup is evaluating the possible extension of this modification to the Group's other production sites.

¹⁵. Details on the type of disposal are currently unavailable. In the coming years the Group will further develop its data collection process in order to provide this information in future editions of the Sustainability Report.

5.8 PACKAGING

For some time, the Group has paid **close attention to reducing the environmental impact in the packaging system** through a careful approach to purchasing recycled

material and efficient use of resources in the packaging process, thanks to **the introduction of automatic boxing machines** in the sorting lines within the production process.

IN 2019, THE ITALIAN BUSINESS UNIT PURCHASED:

79%
Recycled plastic for industrial use, compared to 72% in 2018, 57% in 2017 and 40% in 2016

70%
Recycled paper and cardboard used for product packaging

100%
Wood for storage and material handling from PEFC or FSC certified suppliers



Moreover, from the start of 2020 there are plans to remove the chipboard lid from the packaging of large-format products, which will provide additional benefits in terms of limiting wood consumption.

Panariagroup is also committed to the **recovery of waste materials that are reused by the market.**

Moreover, in recent years the company has acquired **new automatic boxing machines that**

enable optimisation of the use of cardboard during the packaging process, thanks to the use of thinner paper and cardboard and to waste reduction: the machine creates the shape of the packaging by wrapping the product, adjusting the size of the packaging accordingly. This technology allows **a reduction of up to 50% of used cardboard compared to the traditional systems used previously.**



SOCIAL
RESPONSIBILITY



6.1 OUR EMPLOYEES

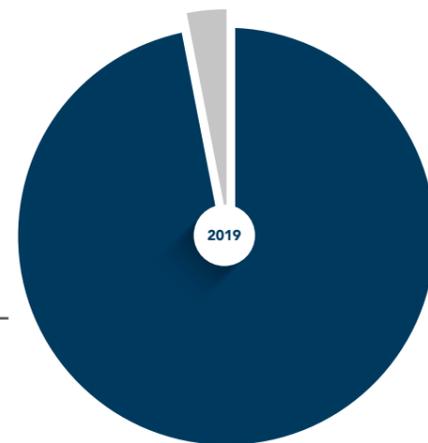
One of Panariagroup's core values is to always attach **central importance to people and quality of life**, operating with the utmost respect for those who work with the Group. Its staff, their well-being, their growth and their professional development are key to Panariagroup's success. In managing its employees, **Panariagroup endorses a corporate culture that attracts the best talents**, improves employees' skills and their ability to work in groups, and recognises and rewards their performance,

with the ultimate goal of contributing to their professional and personal satisfaction.

In order to guarantee the application of these principles, **the Group almost exclusively employs permanent staff. This type of contract 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.

GROUP EMPLOYEES BY CONTRACT TYPE AS OF 31/12/19

- **97%** Permanent contracts
- **3%** Fixed-term contracts



Permanent contracts guarantee employees **more stability and greater opportunities for professional growth.**

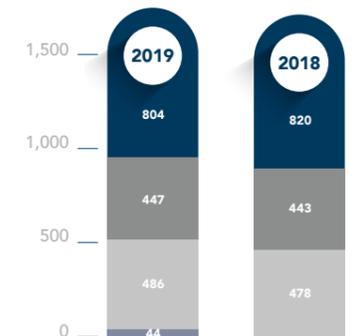
Operating in a complex economic environment, up to this point Panariagroup has decided to maintain stable employment levels and solid relations with the local communities in which it operates, avoiding outsourcing of production processes. Indeed, stability in relations with employees is a fundamental element in responsibly

maintaining the Group's economic growth. As of 31 December 2019, the Group employed 1,781 employees, with a **net gain of 40 new hires compared to the previous year**, partly thanks to the entry of the Indian Business Unit into the scope of consolidation.

GROUP EMPLOYEES AS OF 12/31¹⁶

Net gain of 40 new hires compared to the previous year

- Italy
- Portugal
- USA
- India



In light of a slightly growing workforce, the Group's turnover between 2018 and 2019 remained almost stable, **while the number of new hires increased**, particularly in the USA.

Inclusion and non-discrimination are two values that are considered fundamental to the Group's staff management. These are at the base of various tools used to develop each individual's talent,

to facilitate a work-life balance and to safeguard diversity of culture, ethnicity, age, gender and skills. **The Panariagroup Group is committed to ensuring equal opportunities for employees and for those applying to become part of the organization.** At all of the Group's sites, respect for individuals and their religious, political and sexual orientation is encouraged and every kind of discrimination is prevented by promoting diversity, tolerance and acceptance.

16. The figures shown in the chart include, as of 2019, employees of the Indian Business Unit.

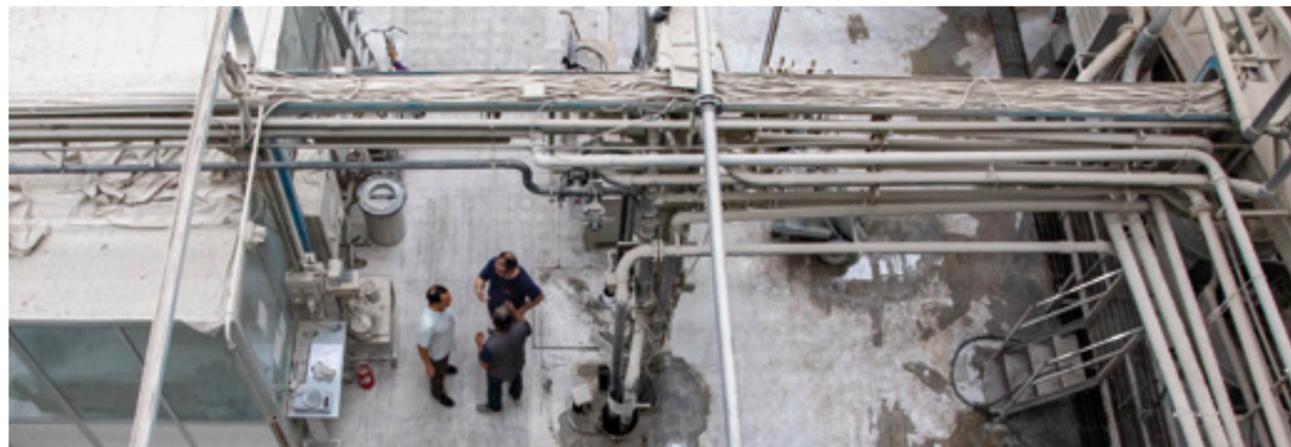
Panariagroup has a **work-life balance policy and offers access to flexible working systems** in the event of maternity or paternity.

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.

In this regard, it should be noted that in 2019, as in 2018, the Group did not detect any incidents of discrimination based on race, colour, sex, religion, political views, national descent or social origin.

Panariagroup has a work-life balance policy and offers access to flexible working systems 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 2019, 16 employees took parental leave, of which 7 were men and 9 were women. The rate of return from leave for 2019 was 91%, while the Group’s retention rate, calculated as the number of employees who took leave and are still company employees 12 months on, is 100% for men, 82% for women and 88% overall for the entire Group.



In Italy, **Panariagroup paid particular attention to the requests for part-time work, which were mainly for family obligations.** As of 31/12/2019, 54 people in Italy were working on part-time contracts, an 8% increase compared to 2018.

With regard to remuneration, **the Group strongly endorses fair salaries for its employees,** in line with local legislation. Furthermore, in 2019, for the Italian Business Unit, the company continued to support sales staff through a reward system that provides incentives to achieve specific results and economic targets. It is important to note that **the Group respects employees’ rights to collective bargaining,**

in compliance with the International Labour Organization Conventions and always in compliance with local legislation. In 2019, 70% of the Group’s employees were covered by collective bargaining agreements. In particular, in Italy, over the years, supplementary company-level agreements have been developed that stipulate better employment terms than those guaranteed by national agreements.

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.

FOCUS ON

NEW INITIATIVES TO LISTEN TO EMPLOYEES



Panariagroup has always been committed to developing a responsible approach to business, aware that sustainability is key to understanding contemporary dynamics, while constantly looking ahead to the future.

The company views this as a fundamental commitment that is supported and fuelled above all by listening and constant dialogue with the main stakeholder groups. Among these stakeholders, **the people who work at Panariagroup are crucial to the company's success.**

Understanding what motivates your employees allows you to make better strategic decisions and to continue to grow.

Over the course of the year, **the Group therefore launched an important initiative to listen to staff**, which consisted of two different project phases: the first phase involved over 200 people, including managers and employees, through a questionnaire on a dedicated online platform. This activity had

various aims and enabled the Group to gauge staff perceptions of aspects such as the working environment and spaces, internal communication, organizational and internal relations, and well-being in the workplace in general.

The second phase involved the organization of 3 Focus Groups that involved managers and employees in a direct and interactive way through free, spontaneous dialogue, partly thanks to moderation by an independent third party. Through this last phase, the Group was able to identify priority areas of development, further examine the positive and negative elements that emerged from the questionnaire, and gather potential ideas for the development of initiatives and improvement activities.

There was a high level of participation from the Panariagroup community, with a response rate of 86%. There was also a high degree of engagement with the company: 89% of employees said they were satisfied about working for Panariagroup. Finally, there was excellent knowledge of the

company's commitment to sustainability, with 97% of survey respondents reporting that they are familiar with the Sustainability Report that the Group annually prepares.

The survey, which enabled the company to gather valuable information on specific work areas that will be developed in the coming months, was initially limited to certain business areas of the Italian Business Unit, however as part of its sustainability strategy, in the future Panariagroup intends to extend

this way of listening to other areas and other Group companies.

The initiative therefore further strengthened stakeholder engagement with employees, an area for which certain **specific internal communication initiatives** were created in 2018 (signage stands and an update newsletter – the second edition of which was released in 2019), as well as a specific campaign to educate people about responsible environmental behaviour in offices.



6.1.1 TRAINING AND DEVELOPMENT

Employee training and development is an issue that both the Group and its stakeholders have considered relevant. Education and professional development are fundamental aspects for the Panariagroup, with the aim of developing the skills and increasing the knowledge of its staff, as well as of ensuring compliance with national legislation and safety in the workplace.

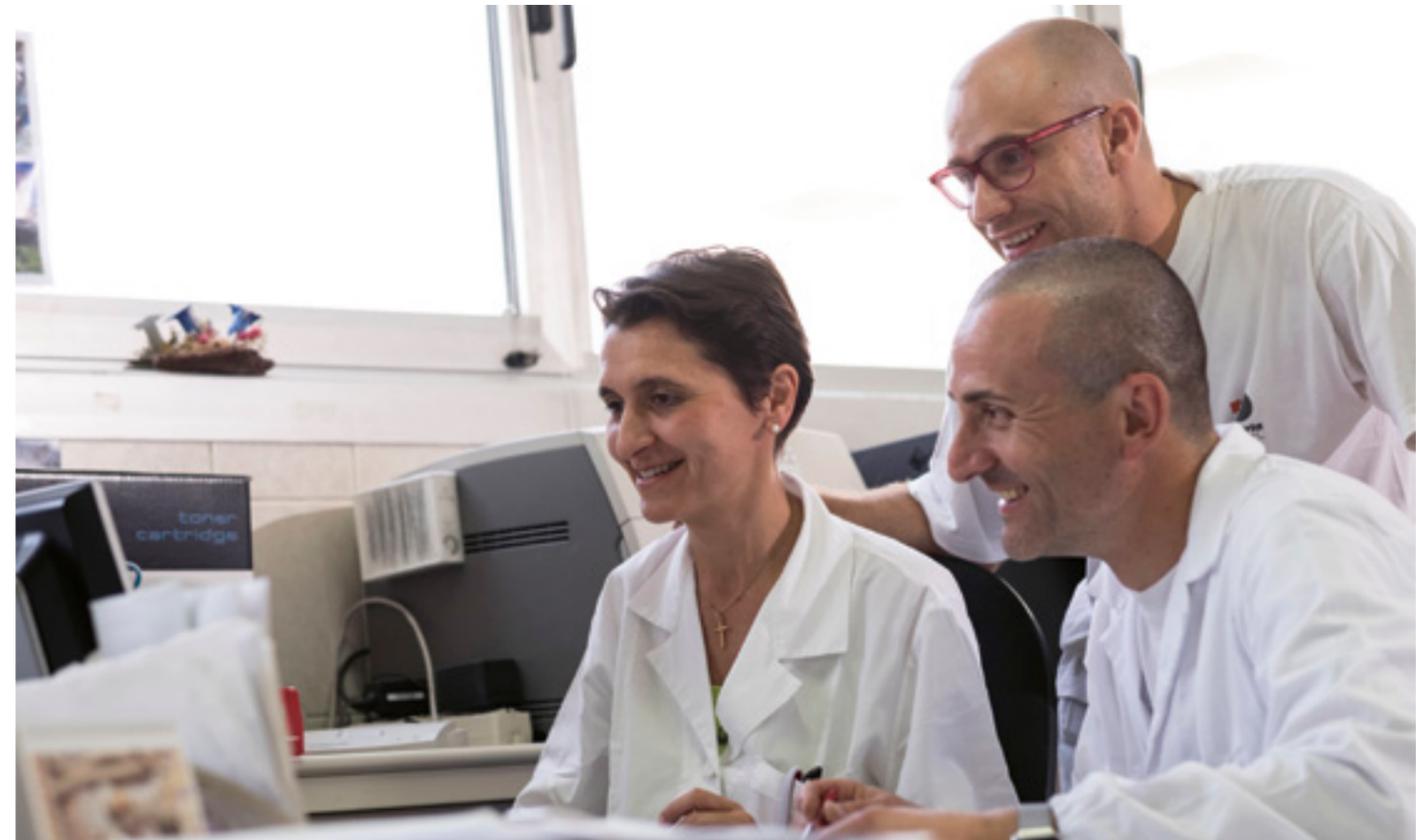
Training activities are not perceived by the Group as a mere legal obligation, but as something beneficial to the company. For this reason, **the Group companies analyse workers' specific needs on an annual basis in order to guarantee the provision of training activities that are best suited to them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

Training activities on health and safety issues are provided throughout the Group, as required by local legislation. In addition, the Group has also offered its employees a wide range of training activities identified by the Managers of the various areas, since they are the most knowledgeable about 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 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 injury rate and lost day rate, as well as specific training for the use of processing machinery with the objective of reducing accidents and possible damage caused by incorrect use. The American BU also attaches particular importance to new staff, who in 2019 received more than 2,000 hours of training in the technical skills needed to perform their jobs. The Company also provides orientation courses through which new employees can familiarise themselves with the new organizational context, receiving information on the company's historical evolution and on existing policies, procedures and benefits. Finally, the US Business Unit is continuing its commitment to environmental and occupational health and safety issues through the provision of over 2,500 hours of specific training aimed, among other things, at raising employee awareness about reducing environmental impact.

Education and professional development are fundamental aspects for the Group, **with the aim of developing the skills and increasing the knowledge of its staff.**



With regard to the Portuguese Business Unit, Gres Panaria Portugal has always viewed employee qualification as an important strategic asset. Based on a careful analysis of the training needs of its staff, every year a training plan is drawn up and approved by the Company management. Moreover, in 2018, a major skills management and development plan was initiated in Portugal, which will be completed in 2020. The skills management system is a dynamic process that defines the combination of knowledge, skills and attitudes needed to achieve high work performance. The model implemented by Gres Panaria Portugal, initially for the production plant in Aveiro, identifies the specific skills required for each department, defined as a set of standard procedures that the operator must be able to independently carry out in order to correctly perform their work. Every employee is therefore assigned a level that ranges from 0 (training period) to 5 (leadership skills). The skill level assessment is carried out on an annual basis and involves the supervision of the department manager with the support of a figure from the Quality, Environment and Safety Area.

The skills management and development system makes it possible to implement more targeted recruitment and selection processes, to more accurately identify the training needs of employees, to integrate performance assessment processes, to facilitate comparison between different skill profiles and to identify employees with leadership skills. The Portuguese Business Unit's goal is to extend the project to the Ílhavo plant.

With regard to the Italian Business Unit, two specific training and refresher initiatives were carried out in 2019. The first one involved the internal sales network, which was part of a sales training program that focused on ways to differentiate the range and on its more effective conveyance throughout the distribution chain. The second one entailed the creation of "Management Meetings", periodic meetings of the community of Panariagroup managers who gather to share company results and strategies, as well as testimonials from important external speakers.

6.1.2

EMPLOYEE HEALTH AND SAFETY

Panariagroup is also active in directly involving employees and local communities in social and environmental initiatives.

In this regard, in 2019 programs continued in Portugal with the objective of qualifying the population, aimed at improving their education and training, contributing to the improvement of their qualification levels and employment status. Gres Panaria Portugal wants to offer the opportunity to increase and develop skills through qualified training.

To this end, in collaboration with AIDA¹⁷, the Portugal Business Unit is developing initiatives to strengthen competitiveness and to establish collaborations with international and national counterparts on issues of common interest, to promote the internationalisation of companies in the Aveiro Region, to encourage entrepreneurship and to promote vocational training, contributing to increasing employment and social inclusion.

The Portuguese Business Unit has also encouraged employees to participate in certain national and international days focused on raising awareness on issues of common interest, such as proper disposal of used batteries, sensible water consumption and the environment in general, responsible food chain management, workplace safety, etc.

2019 saw the continuation of information initiatives for employees relating to the issue of Sustainability, through dedicated meetings and through a periodic newsletter sent by e-mail.

The total hours of training provided by the Group in 2019 amounted to 17,301, of which 10,704 were provided to men and 6,597 to women, with a per capita Group average of 10. These figures, driven by positive trends in all Business Units, show a particularly significant increase compared to 2018, demonstrating the importance of this issue for Panariagroup and how the Group continues to believe in the growth and professional development of its employees, a commitment that is now rooted in the company's corporate culture.

With regard to incentives, the supplementary company agreements applied to the commercial area in Italy (which are already operational) provide for the payment of a variable bonus to employees linked to the Group's financial performance. This system was also renewed for 2019 with the introduction of bonuses linked to aspects not strictly related to turnover. This system has already been widely established in the USA.

Panariagroup, paying great attention to health and safety issues in the workplace, has implemented **an integrated Quality, Environment, Hygiene and Safety management system** in order to guarantee the protection and safety of its workers. This is one of the issues considered fundamental by both the Group and its stakeholders.

In Italy, an environmental and safety management system has been developed in compliance with the ISO 9001 and 14001 standards, EMAS Regulation and the UNI INAIL Guidelines with the aim of developing and implementing internal procedures aimed at preventing, monitoring and managing accidents and injuries 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 certain work processes;
- the arrangement of meetings between the main health and safety representatives (RSPP, RLSSA and Competent doctor) to assess the negative impacts of certain jobs on the health and safety of workers;
- periodic meetings for prevention and protection from health and safety risks, as well as periodic meetings between RSPP and RLSSA aimed at keeping the main managers in the factories constantly informed;
- a risk assessment document in the workplace, prepared in accordance with the requirements of Italian Legislative Decree no. 81/08.

Panariagroup is also committed to informing all the staff about the importance of applying all safety procedures.

With regard to Portugal, the Margres and Love Tiles plants have implemented an integrated Quality,

Environment, Health and Safety system, certified according to ISO 9001, ISO 14001 and EMAS.

The safety management system follows the principles of the relevant management standard (currently ISO 45001).

The main management tools are:

- workers' representatives for health and safety at work (Law 3/2014);
- an internal procedure for analysing workplace risks;
- a program to improve health and safety conditions at work;
- programs to promote employee health;
- internal training on health and safety at work;
- technical advice on health and safety 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);
- work analysis meetings, which include health and safety aspects;
- gymnastics at work to prevent musculoskeletal injuries;
- medical and nursing services at work (Law 3/2014);
- procedure for the control of external service providers with regard to social aspects and health and safety in the workplace.

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

17. Associação Industrial do Distrito de Aveiro.



To guarantee **the protection and safety of its workers is one of the issues that is considered to be fundamental** by both the Group and its stakeholders.

The American Business Unit also offers its employees a free care program, which can help them cope with mental and physical well-being, and has provided a doctor who gives advice not only on work-specific illnesses, but also regarding any need that each employee may have. All employees annually sponsor on-site health&wellness fairs in Lawrenceburg and workers at the distribution centre and factory have access to a local gym membership at discounted prices. In terms of training, an annual training plan on health and safety aspects is prepared and provided to all employees, including new recruits. Maintenance staff receive additional training and employees who use a respirator at work receive specific training on how to wear the kit.

Finally, with regard to the American site, a "Safety Team" will be formally established from 2020 with the aim of facilitating worker participation and consultation in the development, implementation and evaluation of the occupational health and safety management system, and in order to provide access to and communicate relevant

information on occupational health and safety the team will meet about once a month.

The Group constantly monitors accident rates and acts decisively to raise staff awareness through training and internal communications on aspects of safety at work and through appropriate training for new hires (specific mentoring with expert staff, correct use of personal protective equipment and provision of appropriate documentation on the subject).

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

The Group also carefully considers health and safety when designing its products. The design and development of any Panariagroup product is conducted by qualified lab technicians, according to the 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 indicating all the material's toxicological characteristics.** All safety protocols are checked and verified before receipt of the material, and are stored in the same laboratory for future reference. The process for the creation of a new product is carefully evaluated to ensure that the activities related to the various phases of the production cycle do not negatively impact the environment or pose particular risks to workers' health and safety. To demonstrate the Group's attention to employee health and safety, every plant

has a list of operational safety instructions, describing the correct procedures for performing the most dangerous operations in the vicinity of the machinery.

28.2

Recordable workplace accident rate – employees

61.6

Recordable workplace accident rate – contractors¹⁸

18. See footnote 5, p. 12, of this document.

FOCUS ON

HEALTH AND WELLNESS INITIATIVES

All of Panariagroup's Business Units are increasingly pursuing initiatives focused on employees' health and well-being. **From medical support initiatives to those related to individual physical and psychological well-being, to organization of sports activities.**

In Italy, for example, for the second year running, all employees had access to a free flu vaccination. In 2019, this activity was accompanied by the opportunity to benefit from nutritional advice with a check-up, advice and suggestions for a good and healthy diet.

This was all in conjunction with the standard medical check-up program for employees, which continued in 2019.

There are two major initiatives in the US: the Employee Health Program, designed to raise

awareness about health and positive lifestyle changes, including weight loss, quitting smoking, managing mental and physical health, and more. The program gives employees the opportunity to learn about their health and ways to improve it in the course of the year and beyond. Florida Tile employees can also consult a medical professional if necessary.

There is also a monthly newsletter that provides information on conventions for employees and a healthier life.

The other initiative is the Health and Wellness Fair, which enables employees to come into direct contact with companies providing health and wellness services.

Finally, the Portuguese Business Unit has implemented several initiatives in these areas. Gymnastics sessions are held to support work



activities, while sessions are available at a professional massage and therapeutic treatments centre.

Pilates and laughter therapy courses are also held in the new cafeteria to support the psychophysical well-being of employees, to whom the company also provides free fruit.

The Portuguese Business Unit is also very active in sports competitions, some of which are held in partnership with charitable associations, while others are carried out at the highest levels of amateur sport, such as the organization of the Gran Fondo

del Douro race and the sponsorship of the Love Tiles cycling team.

With regard to cycling, in 2019 Panariagroup again confirmed the participation of its own team in the Maratona Dles Dolomites, one of the most important amateur races in the world.

6.2 RELATIONS WITH LOCAL COMMUNITIES

For Panariagroup, Sustainability also encompasses relations with local communities. In our management strategies we consider policies concerning the economic and social impact of our presence.

The goal is to adopt sustainable behaviour at every level in relation to the organizations with which Panariagroup interacts.

The processes implemented for the purpose of the EMAS certification procedure are an excellent opportunity to dialogue with the public and stakeholders regarding environmental and social issues and the potential impact of the Group's activities.

The Group also actively contributes to the growth of local communities through **participation, donations and sponsorships relating to the development and improvement of local conditions.**

The data concerning this commitment is shown in the appendix.

A relevant example is the donation of tiles to local associations.

Despite its positioning in the upper tier of the market and its high-end differentiation strategy, Panariagroup is committed to selling discontinued or slightly imperfect products at reduced prices to encourage the distribution of its products in markets and communities with lower purchasing power.

In the USA, Florida Tile has demonstrated active commitment through donations and solidarity activities to support hospitals, associations for the protection of disadvantaged groups and sports associations. On some occasions, employees have also been directly involved: for example, several days were organized dedicated to helping cancer patients, during which Florida Tile employees cooked for the patients and for their carers.

The Panariagroup Group has also always been involved in sports sponsorship.

Its long-term contribution to cycling, involving a multi-year partnership with international professional teams, has been supplemented by more local operations. In this regard, the activities performed by the Portuguese Business Unit are very significant. Every year the Unit organises the Gran Fondo del Duoro, a top-level competition that attracts non-professional cyclists from all over the world, as well as the organisation of the Love Tiles Cycling Team, which brings together cycling enthusiasts.

The Group is also a partner of the Maratona Dles Dolomites-Enel, an international amateur cycling race that attracts almost 10,000 participants to every edition. For several years Panariagroup has also been 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.

241,000 euro

Value of money and products donated to local communities by the Group in 2019

6.3 RESPONSIBLE SUPPLY CHAIN MANAGEMENT

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

To this end, the Group, which is also aware of the importance of social and environmental responsibility along the supply chain, **has formalized its Code of Business Conduct with the commitment to start a process of implementation of policies and procedures aimed at selecting suppliers on the basis of sustainability criteria** and monitoring the entire supply chain from an ethical, social and environmental perspective, respecting human and workers' rights.

In 2019, in line with the goal stated in the 2018 Sustainability Report, the Group developed a process to analyse its supply chain based on environmental, social and governance criteria, dividing its suppliers into clusters on the basis of a number of variables that identify their potential risk profile and their strategic importance for Panariagroup. This process was initially developed with reference to Italy. The Group thus identified the suppliers that most expose the company to indirect risks and, for 2020, it is committed to setting up a uniform system for evaluating and monitoring

measures adopted in relation to environmental, social, governance and quality aspects. Since this process is still being developed and will be completed in 2020, no evaluations of suppliers and new suppliers based on sustainability criteria (social and environmental) were carried out in 2019.

The Group's¹⁹ suppliers are mainly "Primary Suppliers", from which the Panariagroup Group purchases raw materials, finished products and services for its main production activities, and "Other Suppliers", which provide energy, maintenance and transport services, as well as other activities and assets for operations. The evaluation of the "Primary Suppliers", which are then inserted in the List of Qualified Suppliers, considers the following factors:

- Quality of the product offered;
- Level of attention to Environmental Policies;
- Workplace health and safety criteria;
- Price;
- Service provided;
- Results of any visit to the supplier;
- Number of registered Non-Conformities;
- After-sales assistance, focusing in particular on responses to complaints.

The Panariagroup Group aims **to strengthen relations with its suppliers** in order to jointly create **a system committed to sustainability.**

19. 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 have been excluded from the calculation.

Attention to the following aspects is equally important:

- Quality Management System certification in accordance with UNI EN ISO 9001;
- Environmental Management System certification in accordance with UNI EN ISO 14001;
- Possible participation in the EMAS Regulation.

Moreover, as regards supply chain monitoring, through a contractual clause Panariagroup requires all its Italian suppliers and contractors to accept the standards of conduct defined by the Group's 231/01 Organization and Management Model 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** since they are the Group's main suppliers and the type of work that they undertake, namely mining

activities, produces an environmental impact that is considered to be substantial.

In this regard, 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 Purchasing Department staff or qualified technicians. During these audits, **the methods for extracting materials, for managing and monitoring the environmental impact generated** and for performing subsequent laboratory analyses are checked.

In Portugal, suppliers of raw materials are duly evaluated using the results from questionnaires sent to them. The process of selecting suppliers in Portugal, with the aim of avoiding any conflict of interest, deserves a particular mention. Those who require



materials are not allowed to formalise an order with a 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 has been successfully concluded. **Large investments are always authorised by the technical staff of the Parent Company** in order to add a further control stage to the whole process.

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

Panariagroup also recognises the importance of promoting the local economy.

In this regard, the tables in this document's "Appendix" section show the expenditure on local suppliers²⁰, which accounted for 91% in 2019, in line with the previous year.

The environmental, social and economic risks that may affect the supply chain deserve particular attention. From an environmental perspective, the risks are 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. The production of ceramic starts from the grinding of raw materials. This stage 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). This is one of the reasons why **the Panariagroup Group laboratories and technicians constantly research alternative materials.**

The composition of the mixture and transport methods are therefore based on a number of different channels (quarries in different geographic areas, several supply channels, use of different transport methods) so that different solutions can be used depending on the different issues that may arise. The procurement of raw materials also emerges as a relevant issue, especially with regard to the extraction of the material in the quarries by the suppliers. Panariagroup, in this regard, 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 in use. From a social perspective, moreover, it should be noted that none of the raw materials purchased by the Group are linked to "conflict minerals".



20. "Local suppliers" were considered to be those suppliers with a registered office in the country in which each Business Unit operates.

FOCUS ON

A SUSTAINABILITY IDEAS COMPETITION FOR EMPLOYEES



Panariagroup's strong commitment to sustainability not only embraces product innovation, but the company's entire operations.

In 2019, the Group set up the first edition of the **Sustainability Award for employees of the Italian Business Unit** who have been awarded by selecting the **best ideas designed to make the company increasingly sustainable**.

The initiative, which is one of the concrete commitments that Panariagroup has adopted in its Sustainability Report, is one of the many and numerous activities that the company is undertaking with the aim of strengthening its relationship with the environment and people, starting from those who contribute to its success

every day.

In autumn 2019, the company therefore promoted an internal competition for sustainable ideas in three distinct areas:

- ideas for improving the product and the production and logistics process;
- ideas for improving life in the company;
- ideas for supporting local communities and the local area.

The first edition of the competition received a good response from employees with a selection of over 80 detailed projects and considerable engagement from everyone involved.

The 3 winners could choose between options that

included shopping vouchers, book purchases, a wellness package, training courses, home appliance purchases, e-bikes, and various other solutions. In the area of production process improvement, the winning project proposes the detailed development of an idea for recycling filter-pressed grinding sludge based on an in-depth study of the recovery of materials from the industrial process.

The winning improvement of company life project aims to promote the formation of an internal community for the exchange of material goods and services between colleagues, identifying the company as the ideal place to rebuild a sense of community and to restart creating relationships in a sustainable recycling system.

In the support of local communities, the winning project designed a way of recycling unused ceramic material by opening the Group's doors to a school in order to train pupils how to lay ceramic tiles and to encourage them to challenge themselves by using ceramic surfaces for decoration projects in school environments.

This was another important step in terms of involving **Panariagroup's internal community, which can increasingly recognize itself in the corporate sustainability strategy and make a concrete contribution.**







APPENDIX

7.1 ENVIRONMENTAL DATA

For 2019, the scope of the environmental data refers to the Group companies that operate production sites. Companies with only commercial offices and Montanari Ceramiche S.r.l., a retail outlet for ceramic material, are excluded, since they are not considered relevant to an understanding of the Group's business activities and the impact of its products. Moreover, for 2019, a decision was taken to report water withdrawal and discharge data using the new GRI 303 Standard, published by the Global Reporting

Initiative (GRI) in 2018 to replace the version used until now, published in 2016. For comparative purposes, the figures for 2018 have therefore been restated compared to those published in the previous Sustainability Report, also considering incoming water from raw materials in water withdrawal, as required by the new 303 Standard. For the previously published data, see the 2018 Sustainability Report, published in the Sustainability section on www.panariagroup.it.

ENERGY CONSUMPTION

TOTAL ENERGY CONSUMPTION

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Total energy consumption (GJ)	1,750,793	925,767	455,694	3,132,254	1,682,621	933,267	541,202	3,157,091
of which:								
from renewable sources (GJ)	1,921	-	-	1,921	1,976	-	-	1,976
from non-renewable sources (GJ)	1,748,872	925,767	455,694	3,130,333	1,680,645	933,267	541,202	3,155,115
Energy intensity (GJ/m ²) ²¹	0.147	0.135	0.122	0.139	0.142	0.136	0.136	0.139

SELF-PRODUCED AND CONSUMED ELECTRICITY FROM RENEWABLE SOURCES

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Production of electricity from renewable sources (kWh)	533,607	-	-	533,607	548,844	-	-	548,844
Production of electricity from renewable sources (GJ)	1,921	-	-	1,921	1,976	-	-	1,976
Emissions avoided CO ₂ e (t) - Location based	192	-	-	192	197	-	-	197

ELECTRICITY PURCHASED

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Electricity purchased (kWh)	77,951,414	46,673,706	29,812,800	154,437,920	77,132,495	46,672,550	30,955,200	154,760,245
Electricity purchased (GJ)	280,625	168,025	107,326	555,977	277,677	168,021	111,439	557,137
CO ₂ emissions (t) - Location based	28,063	14,982	12,551	55,596	27,691	18,436	12,723	58,849
CO ₂ e emissions (t) - Market based	37,417	18,343	12,551	68,311	37,564	14,749	13,032	65,344

NATURAL GAS CONSUMPTION

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
LNG consumption (Sm ³)	40,085,019	20,812,267	9,539,084	70,436,370	38,523,585	21,147,261	11,934,957	71,605,803
LNG consumption (GJ)	1,454,485	755,173	346,126	2,555,784	1,378,898	756,937	427,195	2,563,030
CO ₂ e emissions (t)	82,035	42,593	19,522	144,149	78,223	42,940	24,234	145,398

LPG CONSUMPTION

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
LPG consumption (m ³)	-	628	24	652	-	612	19	631
LPG consumption (GJ)	-	67	3	70	-	65	2	67
CO ₂ e emissions (t)	-	4.3	0.2	4.5	-	4	0.1	4.3

FUEL CONSUMPTION FOR INDUSTRIAL VEHICLES

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Diesel (l)	383,445	69,691	56,781	509,917	388,953	71,824	65,938	526,715
Diesel (GJ)	13,762	2,501	2,038	18,301	13,960	2,578	2,367	18,904
Petrol (l)	-	-	6,155	6,155	-	-	2,166	2,166
Petrol (GJ)	-	-	202	202	-	-	70	70
CO ₂ e diesel emissions (t)	1,007	183	149	1,340	1,009	186	171	1,366
CO ₂ e petrol emissions (t)	-	-	14	14	-	-	5	5
Total CO ₂ e emissions (t)	1,007	183	163	1,353	1,009	186	176	1,371

FUEL CONSUMPTION FOR CAR FLEET²²

	2019			
	IT	PT	US	TOTAL
Diesel (l)	278,651	157,882	-	436,533
Diesel (GJ)	10,001	5,666	-	15,667
Petrol (l)	3,394	-	4,023	7,417
Petrol (GJ)	110	-	130	240
CO ₂ e diesel emissions (t)	723	410	-	1,132
CO ₂ e petrol emissions (t)	7.5	-	0.4	8
Total CO ₂ e emissions (t)	730	410	0.4	1,140

21. See footnote 4, p. 12, of this document.

22. The Group reports the fuel consumption of the car fleet starting from FY 2019.

EMISSIONS

TOTAL CO₂e EMISSIONS

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Direct emissions – Scope 1 (t) Energy	83,042	42,780	19,685	145,507	79,963	43,540	24,411	147,914
Direct emissions – Scope 1 (t) Raw material processing ²³	354	4,537	86	4,977	766	3,901	217	4,883
Direct emissions – Scope 1 (t) Total	83,396	47,317	19,771	150,484	80,729	47,441	24,628	152,797
Indirect emissions – Scope 2 (t) Location based ²⁴	28,063	14,982	12,551	55,596	27,691	18,436	12,723	58,849
Indirect emissions – Scope 2 (t) Market based ²⁴	37,417	18,343	12,551	68,311	37,327	14,749	13,032	65,108
Emissions intensity ²¹ total – Scope 1+2 Location based (tCO ₂ e/m ²)	0.009	0.009	0.009	0.009	0.009	0.010	0.009	0.009
Emissions intensity ²¹ total – Scope 1+2 Market based (tCO ₂ e/m ²)	0.010	0.010	0.009	0.010	0.010	0.009	0.009	0.010

NO_x, SO_x AND OTHER POLLUTANT EMISSIONS

	2018	2019
	t/YEAR	t/YEAR
NO _x	134	96
SO _x	47	19
Persistent organic pollutants (POPs)	-	-
Volatile organic compounds (VOCs)	55	72
Hazardous air pollutants (HAPs)	3	3
Particulate matter (PM)	67	44
Other emission standard categories identified in the applicable legislation	38	37

EMISSION FACTORS

Emission factors	2019					
	Electricity (gCO ₂ /kWh) – Location based ²⁴	Electricity (gCO ₂ e/kWh) – Market based	Natural gas (tCO ₂ e/Smc)	LPG (tCO ₂ e/t)	Diesel (tCO ₂ e/t)	Petrol (tCO ₂ e/t)
Italy	359	487				
Portugal	395	316	0.002	2.94	3.088	2.998
US	411	421				
Source	TERNA, International Comparisons, 2017	European Residual Mix 2018 for Italy and Portugal, TERNA, Confronti Internazionali, 2017 for US	DEFRA 2019	DEFRA 2019	DEFRA 2019	DEFRA 2019

EMISSION FACTORS

Emission factors	2018					
	Electricity (gCO ₂ /kWh) – Location based ²⁴	Electricity (gCO ₂ e/kWh) – Market based	Natural gas (tCO ₂ e/Smc)	LPG (tCO ₂ e/t)	Diesel (tCO ₂ e/t)	Petrol (tCO ₂ e/t)
Italy	360	480				
Portugal	321	393	0.00205	2.937	3.132	3.002
US	421	421				
Source	TERNA, International Comparisons, 2016	European Residual Mix 2017 for Italy and Portugal, TERNA, Confronti Internazionali, 2016 for US	DEFRA 2018	DEFRA 2018	DEFRA 2018	DEFRA 2018

CONVERSION FACTORS IN GJ

	2018	2019
	LCV	LCV
LOWER CALORIFIC VALUE OF FUELS		
Natural Gas (GJ/Smc)	0.036	0.036
LPG (GJ/t)	45.92	45.91
Diesel (GJ/t)	42.79	42.72
Petrol (GJ/t)	43.92	43.86
Source	DEFRA 2018	DEFRA 2019

23. The figure for Scope 1 direct emissions from the raw material firing process takes into account the carbonates contained in the clay, feldspar, sand and zirconium/bleaching agents. The figure for the American Business Unit is estimated based on the European parameters already used for the Italian and Portuguese Business Units.

24. The emission factors reported by TERNA, Confronti Internazionali version 2016 and 2017, are expressed in tons of CO₂, however the percentage of methane and nitrous oxide has a negligible effect on the total greenhouse gas (CO₂e) emissions, as can be inferred from the relevant technical literature.

WATER AND WASTEWATER

WATER WITHDRAWAL

WITHDRAWAL SOURCE (ML)	2018		2019	
	ALL AREAS	WATER-STRESSED AREAS	ALL AREAS	WATER-STRESSED AREAS
ITALY				
Surface water	-	-	-	-
Groundwater	180	-	181	-
of which fresh water (≤1,000 mg/l total dissolved solids)	180	-	181	-
Seawater	-	-	-	-
Water produced	33	-	33	-
of which fresh water (≤1,000 mg/l total dissolved solids)	33	-	33	-
Third-party water resources	11	-	16	-
Fresh water (≤1,000 mg/l total dissolved solids)	11	-	16	-
of which surface water	-	-	-	-
of which groundwater	11	-	16	-
of which water produced	-	-	-	-
Total water withdrawal	224	-	230	-
PORTUGAL				
Surface water	-	-	-	-
Groundwater	162	-	160	-
of which fresh water (≤1,000 mg/l total dissolved solids)	162	-	160	-
Seawater	-	-	-	-
Water produced	20	-	18	-
of which fresh water (≤1,000 mg/l total dissolved solids)	20	-	18	-
Third-party water resources	5	-	6	-
Fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
of which surface water	-	-	-	-
of which groundwater	5	-	6	-
of which water produced	-	-	-	-
Total water withdrawal	187	-	184	-
US				
Surface water	-	-	-	-
Groundwater	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Seawater	-	-	-	-
Water produced	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Third-party water resources	37	-	37	-
Fresh water (≤1,000 mg/l total dissolved solids)	37	-	37	-
of which surface water	37	-	37	-
of which groundwater	-	-	-	-
of which water produced	-	-	-	-
Total water withdrawal	37	-	37	-
GROUP TOTAL				
Surface water	-	-	-	-
Groundwater	342	-	341	-
of which fresh water (≤1,000 mg/l total dissolved solids)	342	-	341	-
Seawater	-	-	-	-
Water produced	53	-	51	-
of which fresh water (≤1,000 mg/l total dissolved solids)	53	-	51	-
Third-party water resources	53	-	58	-
Fresh water (≤1,000 mg/l total dissolved solids)	53	-	58	-
of which surface water	37	-	37	-
of which groundwater	16	-	21	-
of which water produced	-	-	-	-
Total water withdrawal	448	-	450	-

WASTEWATER

DISPOSAL SITE (ML)	2018		2019	
	ALL AREAS	WATER-STRESSED AREAS	ALL AREAS	WATER-STRESSED AREAS
ITALY				
Surface water	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Groundwater	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Seawater	-	-	-	-
Third-party water resources	10	-	14	-
Fresh water (≤1,000 mg/l total dissolved solids)	10	-	14	-
of which surface water	-	-	-	-
of which groundwater	10	-	14	-
Total wastewater	10	-	14	-
PORTUGAL				
Surface water	8	-	8	-
of which fresh water (≤1,000 mg/l total dissolved solids)	8	-	8	-
Groundwater	33	-	23	-
of which fresh water (≤1,000 mg/l total dissolved solids)	33	-	23	-
Seawater	-	-	-	-
Third-party water resources	5	-	6	-
Fresh water (≤1,000 mg/l total dissolved solids)	5	-	6	-
of which surface water	-	-	-	-
of which groundwater	5	-	6	-
Total wastewater	46	-	37	-
US				
Surface water	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Groundwater	-	-	-	-
of which fresh water (≤1,000 mg/l total dissolved solids)	-	-	-	-
Seawater	-	-	-	-
Third-party water resources	13	-	18	-
Fresh water (≤1,000 mg/l total dissolved solids)	13	-	18	-
of which surface water	13	-	18	-
of which groundwater	-	-	-	-
Total wastewater	13	-	18	-
GROUP TOTAL				
Surface water	8	-	8	-
of which fresh water (≤1,000 mg/l total dissolved solids)	8	-	8	-
Groundwater	33	-	23	-
of which fresh water (≤1,000 mg/l total dissolved solids)	33	-	23	-
Seawater	-	-	-	-
Third-party water resources	28	-	37	-
Fresh water (≤1,000 mg/l total dissolved solids)	28	-	37	-
of which surface water	13	-	18	-
of which groundwater	15	-	19	-
Total wastewater	69	-	68	-

WASTE

WASTE BY TREATMENT METHOD²⁵

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Recovered/recycled (t)	49,446	15,471	287	65,204	51,293	15,028	300	66,622
of which hazardous (t)	42	19	-	61	64	7.9	0	72
Disposal (t)	798	6	3,023	3,827	1,072	0.4	3,000	4,072
of which hazardous (t)	125	6	-	131	171	0.4	0	172
Total waste produced (t)	50,244	15,447	3,310	69,031	52,365	15,029	3,300	70,694
% hazardous waste	0.33%	0.16%	0.00%	0.28%	0.45%	0.06%	0.00%	0.34%

PRODUCTION

SURFACE AREA AND WEIGHT OF TILES PRODUCED

	2018				2019			
	IT	PT	US	TOTAL	IT	PT	US	TOTAL
Surface area of tiles produced (m ²)	11,905,150	6,851,384	3,729,993	22,486,526	11,880,819	6,886,752	3,984,214	22,751,785
Metric tons of tiles produced (t)	284,956	138,654	74,599	498,209	280,541	143,969	79,684	504,195

25. See footnote 15, p. 112, of this document

7.2

HUMAN RESOURCES DATA

For 2019, a decision was taken to report accident data using the new GRI 403 Standard, published by the Global Reporting Initiative (GRI) in 2018 to replace the version used until now, published in 2016. For comparative purposes, the figures for 2018 have therefore been restated compared to those published in the previous NFS, excluding accidents

occurring on the commute not organised by the Group, as required by the new 403 Standard. For the previously published data, see the 2018 Sustainability Report, published in the Sustainability section on www.panariagroup.it.

NUMBER OF EMPLOYEES

NUMBER OF EMPLOYEES BY COUNTRY, GENDER AND TYPE OF CONTRACT AS OF 31 DECEMBER

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY	601	309	910	589	300	889
Employees	540	280	820	529	275	804
Staff leasing workers	61	29	90	60	24	84
Apprentices	-	-	-	-	-	-
Interns/trainees	-	-	-	-	1	1
PORTUGAL	401	139	540	418	139	557
Employees	321	122	443	321	126	447
Staff leasing workers	80	16	96	97	11	108
Apprentices	-	-	-	-	-	-
Interns/trainees	-	1	1	-	2	2
US	345	148	493	346	148	494
Employees	333	145	478	340	146	486
Staff leasing workers	12	3	15	6	2	8
Apprentices	-	-	-	-	-	-
Interns/trainees	-	-	-	-	-	-
INDIA				42	5	47
Employees				40	4	44
Staff leasing workers				2	1	3
Apprentices				-	-	-
Interns/trainees				-	-	-
GROUP TOTAL	1,347	596	1,943	1,395	592	1,987
Employees	1,194	547	1,741	1,230	551	1,781
Staff leasing workers	153	48	201	165	38	203
Apprentices	-	-	-	-	-	-
Interns/trainees	-	1	1	-	3	3

NUMBER OF EMPLOYEES BY COUNTRY, GENDER AND TYPE OF CONTRACT AS OF 31 DECEMBER

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY	540	280	820	529	275	804
Permanent employees	524	275	799	524	273	797
Fixed-term contract employees	16	5	21	5	2	7
PORTUGAL	321	122	443	321	126	447
Permanent employees	273	107	380	288	112	400
Fixed-term contract employees	48	15	63	33	14	47
US	333	145	478	340	146	486
Permanent employees	333	144	477	340	146	486
Fixed-term contract employees	-	1	1	-	-	-
INDIA				40	4	44
Permanent employees				40	4	44
Fixed-term contract employees				-	-	-
GROUP TOTAL	1,194	547	1,741	1,230	551	1,781
Permanent employees	1,130	526	1,656	1,192	535	1,727
Fixed-term contract employees	64	21	85	38	16	54

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

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY	540	280	820	529	275	804
Full time	532	238	770	521	229	750
Part time	8	42	50	8	46	54
PORTUGAL	321	122	443	321	126	447
Full time	321	122	443	321	126	447
Part time	-	-	-	-	-	-
US	333	145	478	340	146	486
Full time	331	145	476	339	145	484
Part time	2	-	2	1	1	2
INDIA				40	4	44
Full time				40	4	44
Part time				-	-	-
GROUP TOTAL	1,194	547	1,741	1,230	551	1,781
Full time	1,184	505	1,689	1,221	504	1,725
Part time	10	42	52	9	47	56

NUMBER OF EMPLOYEES BY EMPLOYEE CATEGORY AND GENDER AS OF 31 DECEMBER

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY	540	280	820	529	275	804
Senior managers	37	-	37	34	-	34
White-collar workers	174	108	282	170	106	276
Blue-collar workers	329	172	501	325	169	494
PORTUGAL	321	122	443	321	126	447
Senior managers	11	3	14	11	3	14
White-collar workers	40	53	93	45	57	102
Blue-collar workers	270	66	336	265	66	331
US	333	145	478	340	146	486
Senior managers	19	7	26	17	7	24
White-collar workers	107	108	215	106	108	214
Blue-collar workers	207	30	237	217	31	248
INDIA				40	4	44
Senior managers				3	-	3
White-collar workers				26	4	30
Blue-collar workers				11	-	11
GROUP TOTAL	1,194	547	1,741	1,230	551	1,781
Senior managers	67	10	77	65	10	75
White-collar workers	321	269	590	347	275	622
Blue-collar workers	806	268	1,074	818	266	1,084

NUMBER OF EMPLOYEES BY EMPLOYEE CATEGORY AND AGE AS OF 31 DECEMBER

	2018				2019			
	<30	30-50	>50	TOTAL	<30	30-50	>50	TOTAL
ITALY	31	488	301	820	37	445	322	804
Senior managers	-	18	19	37	-	17	17	34
White-collar workers	11	197	74	282	14	183	79	276
Blue-collar workers	20	273	208	501	23	245	226	494
PORTUGAL	44	273	126	443	44	252	151	447
Senior managers	-	11	3	14	-	10	4	14
White-collar workers	11	66	16	93	11	67	24	102
Blue-collar workers	33	196	107	336	33	175	123	331
US	72	252	154	478	80	250	156	486
Senior managers	-	14	12	26	-	15	9	24
White-collar workers	24	117	74	215	26	108	80	214
Blue-collar workers	48	121	68	237	54	127	67	248
INDIA					5	36	3	44
Senior managers					-	1	2	3
White-collar workers					3	26	1	30
Blue-collar workers					2	9	-	11
GROUP TOTAL	147	1,013	581	1,741	166	983	632	1,781
Senior managers	-	43	34	77	-	43	32	75
White-collar workers	46	380	164	590	54	384	184	622
Blue-collar workers	101	590	383	1,074	112	556	416	1,084

NUMBER OF PROTECTED CLASS EMPLOYEES BY CATEGORY AND GENDER AS OF 31 DECEMBER²⁶

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY	21	11	32	25	14	39
Senior managers	-	-	-	-	-	-
White-collar workers	1	2	3	2	2	4
Blue-collar workers	22	10	32	23	12	35
PORTUGAL	-	-	-	-	-	-
Senior managers	-	-	-	-	-	-
White-collar workers	-	-	-	-	-	-
Blue-collar workers	-	-	-	-	-	-
US	3	-	3	2	1	3
Senior managers	-	-	-	-	-	-
White-collar workers	1	-	1	1	1	2
Blue-collar workers	2	-	2	1	-	1
INDIA	-	-	-	-	-	-
Senior managers	-	-	-	-	-	-
White-collar workers	-	-	-	-	-	-
Blue-collar workers	-	-	-	-	-	-
GROUP TOTAL	26	12	38	27	15	42
Senior managers	-	-	-	-	-	-
White-collar workers	2	2	4	3	3	6
Blue-collar workers	24	10	34	24	12	36

COMPOSITION OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2019, BY GENDER AND AGE

	GENDER	AGE		
		<30	30-50	>50
Emilio Mussini	M			●
Andrea Mussini	M			●
Silvia Mussini	F			●
Giuliano Mussini	M			●
Paolo Mussini	M			●
Giuliano Pini	M			●
Sonia Bonfiglioli	F			●
Daniele Prodi	M			●
Tiziana Ferrari	F		●	
Francesca Bazoli	F			●
Men - 60%				
Women - 40%				
30-50 years - 10%				
>50 years - 90%				

26. The protected class category is defined according to the local laws of each individual Country. For the calculation of US protected classes, only employees with "disability" status were considered in order to further align the data with the national legislation where the Group's other Business Units are present.

EMPLOYEE NEW HIRES BY GENDER AND AGE²⁷

	2018			2019				
	MEN	WOMEN	TOTAL	EMPLOYEE NEW HIRES AS % OF TOTAL	MEN	WOMEN	TOTAL	EMPLOYEE NEW HIRES AS % OF TOTAL
ITALY	42	9	51		19	7	26	
Age <30 years	14	3	17	54.8%	8	2	10	27.0%
Age 30-50 years	28	5	33	6.8%	10	4	14	3.1%
Age >50 years	-	1	1	0.3%	1	1	2	0.6%
Employee new hires as % of total	7.8%	3.2%	6.2%		3.6%	2.5%	3.2%	
PORTUGAL	38	12	50		22	10	32	
Age <30 years	14	6	20	45.5%	12	1	13	29.5%
Age 30-50 years	21	6	27	9.9%	10	9	19	7.5%
Age >50 years	3	-	3	2.4%	-	-	-	0.0%
Employee new hires as % of total	11.8%	9.8%	11.3%		6.9%	7.9%	7.2%	
US	113	43	156		148	60	208	
Age <30 years	40	17	57	79.2%	56	21	77	96.3%
Age 30-50 years	56	21	77	30.6%	78	33	111	44.4%
Age >50 years	17	5	22	14.3%	14	6	20	12.8%
Employee new hires as % of total	33.9%	29.7%	32.6%		43.5%	41.1%	42.8%	
INDIA					22	2	24	
Age <30 years					3	-	3	60.0%
Age 30-50 years					16	2	18	50.0%
Age >50 years					3	-	3	100.0%
Employee new hires as % of total					55.0%	50.0%	54.5%	
GROUP TOTAL	193	64	257		211	79	290	
Age <30 years	68	26	94	63.9%	79	24	103	62.0%
Age 30-50 years	105	32	137	13.5%	114	48	162	16.5%
Age >50 years	20	6	26	4.5%	18	7	25	4.0%
Employee new hires as % of total²⁸	16.2%	11.7%	14.8%		17.2%	14.3%	16.3%	

27. Data on new hires does not include seasonal personnel and intra-group transfers.

28. New hires as a % of total is calculated as follows: number of new hires during the year/total employees at the end of the year*100.

EMPLOYEE TERMINATIONS BY GENDER AND AGE²⁹

	2018			EMPLOYEE TERMINATIONS AS % OF TOTAL	2019			EMPLOYEE TERMINATIONS AS % OF TOTAL
	MEN	WOMEN	TOTAL		MEN	WOMEN	TOTAL	
ITALY	17	8	25		30	12	42	
Age <30 years	1	2	3	9.7%	2	1	3	8.1%
Age 30-50 years	6	3	9	1.8%	14	4	18	4.0%
Age >50 years	10	3	13	4.3%	14	7	21	6.5%
Employee terminations as % of total	3.1%	2.9%	3.0%		5.7%	4.4%	5.2%	
PORTUGAL	23	9	32		22	6	28	
Age <30 years	5	3	8	18.2%	6	1	7	15.9%
Age 30-50 years	13	5	18	6.6%	11	4	15	6.0%
Age >50 years	5	1	6	4.8%	5	1	6	4.0%
Employee terminations as % of total	7.2%	7.4%	7.2%		6.9%	4.8%	6.3%	
US	132	56	188		142	58	200	
Age <30 years	35	12	47	65.3%	39	17	56	70.0%
Age 30-50 years	79	28	107	42.5%	77	34	111	44.4%
Age >50 years	18	16	34	22.1%	26	7	33	21.2%
Employee terminations as % of total	39.6%	38.6%	39.3%		41.8%	39.7%	41.2%	41.2%
INDIA					27	1	28	
Age <30 years					1	1	2	40.0%
Age 30-50 years					23	-	23	63.9%
Age >50 years					3	-	3	100.0%
Employee terminations as % of total					67.5%	25.0%	63.6%	
GROUP TOTAL	172	73	245		221	77	298	
Age <30 years	41	17	58	39.5%	48	20	68	41.0%
Age 30-50 years	98	36	134	13.2%	125	42	167	17.0%
Age >50 years	33	20	53	9.1%	48	15	63	10.0%
Employee terminations as % of total³⁰	14.4%	13.3%	14.1%		18.0%	14.0%	16.7%	

29. The data for employee terminations does not include seasonal personnel and intra-group transfers.

30. Employee terminations as a % of total is calculated as follows: number of outgoing employees during the year/total employees at the end of the year*100.

PARENTAL LEAVE

PARENTAL LEAVE 2018

	IT			PT			US			IN		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Employees who took parental leave during 2018	-	6	6	5	2	7	-	3	3	-	-	-
of which status as of 31.12.2018												
still on leave	-	2	2	1	2	3	-	-	-	-	-	-
returned and still employed	-	4	4	4	-	4	-	3	3	-	-	-
resigned	-	-	-	-	-	-	-	-	-	-	-	-
Return to work rate as of 31.12.2018	-	100%	100%	100%	100%	100%	-	100%	100%	-	-	-
Employees who took parental leave during 2017	-	5	5	8	3	11	-	3	3	-	-	-
of which status as of 31.12.2017												
still on leave	-	3	3	-	2	2	-	3	3	-	-	-
returned and still employed	-	2	2	8	1	9	-	-	-	-	-	-
resigned	-	-	-	-	-	-	-	-	-	-	-	-
Return to work rate as of 31.12.2017	-	100%	100%	100%	100%	100%	-	-	-	-	-	-
Employees who took parental leave during 2017	-	5	5	8	3	11	-	3	3	-	-	-
of which status as of 31.12.2018												
still on leave	-	-	-	-	-	-	-	-	-	-	-	-
returned and still employed	-	5	5	7	3	10	-	3	3	-	-	-
resigned	-	-	-	1	-	1	-	-	-	-	-	-
Retention rate as of 31.12.2018	-	100%	100%	88%	100%	91%	-	100%	100%	-	-	-

PARENTAL LEAVE 2019

	IT			PT			US			IN		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Employees who took parental leave during 2019	-	3	3	7	3	10	-	3	3	-	-	-
of which status as of 31.12.2019												
still on leave	-	-	-	3	2	5	-	-	-	-	-	-
returned and still employed	-	3	3	4	1	5	-	2	2	-	-	-
resigned	-	-	-	-	-	-	-	1	1	-	-	-
Return to work rate as of 31.12.2019	-	100%	100%	100%	100%	100%	-	67%	67%	-	-	-
Employees who took parental leave during 2018	-	6	6	5	2	7	-	3	3	-	-	-
of which status as of 31.12.2018												
still on leave	-	2	2	1	2	3	-	-	-	-	-	-
returned and still employed	-	4	4	4	-	4	-	3	3	-	-	-
resigned	-	-	-	-	-	-	-	-	-	-	-	-
Return to work rate as of 31.12.2018	-	100%	100%	100%	-	100%	-	100%	100%	-	-	-
Employees who took parental leave during 2018	-	6	6	5	2	7	-	3	3	-	-	-
of which status as of 31.12.2019												
still on leave	-	-	-	-	-	-	-	-	-	-	-	-
returned and still employed	-	6	6	5	2	7	-	1	1	-	-	-
resigned	-	-	-	-	-	-	-	2	2	-	-	-
Retention rate as of 31.12.2019	-	100%	100%	100%	100%	100%	-	33%	33%	-	-	-

TRAINING

AVERAGE HOURS OF TRAINING PER EMPLOYEE CATEGORY

	2018						2019					
	MEN		WOMEN		TOTAL		MEN		WOMEN		TOTAL	
	Hours	Average	Hours	Average	Hours	Average	Hours	Average	Hours	Average	Hours	Average
ITALY												
Senior managers	153	4	-	-	153	4	237	7	-	-	237	7
White-collar workers	432	2	110	1	542	2	626	4	435	4	1,061	4
Blue-collar workers	1,184	4	526	3	1,710	3	1,366	4	416	2	1,782	4
Total	1,769	3	636	2	2,404	3	2,229	4	851	3	3,080	4
PORTUGAL												
Senior managers	141	13	206	69	347	25	273	25	316	105	588	42
White-collar workers	604	15	2,725	51	3,329	36	710	16	3,339	59	4,049	40
Blue-collar workers	1,430	5	379	6	1,808	5	1,725	7	210	3	1,935	6
Total	2,174	7	3,309	27	5,483	12	2,707	8	3,865	31	6,572	15
US												
Senior managers	18	1	5	1	23	1	32	2	12	2	44	2
White-collar workers	249	2	161	1	410	2	534	5	494	5	1,028	5
Blue-collar workers	1,205	6	211	7	1,416	6	5,200	24	1,345	43	6,545	26
Total	1,471	4	377	3	1,848	4	5,766	17	1,851	13	7,617	16
INDIA												
Senior managers	-	-	-	-	-	-	-	-	-	-	-	-
White-collar workers	-	-	-	-	-	-	2	0.1	-	-	2	0.07
Blue-collar workers	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	2	0.1	-	-	2	0.05
GROUP TOTAL												
Senior managers	311	5	211	21	522	7	542	8	328	33	869	12
White-collar workers	1,284	4	2,996	11	4,280	7	1,872	5	4,283	16	6,155	10
Blue-collar workers	3,819	5	1,115	4	4,934	5	8,291	10	1,986	7	10,277	9
Total	5,414	5	4,321	8	9,735	6	10,704	9	6,597	12	17,301	10

HEALTH AND SAFETY

WORKPLACE ACCIDENTS AND TYPE – EMPLOYEES

	2018					2019				
	IT	PT	US	IN	GROUP	IT	PT	US	IN	GROUP
Total number of deaths due to workplace accidents	-	-	-	-	-	-	-	-	-	-
Total number of serious workplace accidents ³¹ (excluding deaths)	-	-	-	-	-	-	1	-	-	1
Total number of recordable workplace accidents	47	34	25	-	106	36	25	28	-	89
Hours worked	1,280,687	802,613	970,106	-	3,053,406	1,265,520	838,526	956,024	97,245	3,157,315
Death rate due to workplace injuries ³²	-	-	-	-	-	-	-	-	-	-
Serious workplace accident rate ³¹ (excluding deaths)	-	-	-	-	-	-	1,2	-	-	0,3
Recordable workplace accident rate ³³	36.7	42.4	25.8	-	34.7	28.4	29.8	29.3	-	28.2
Superficial injuries, open wounds and burns	25	7	7	-	39	13	9	10	-	32
Sprains, dislocations and fractures	22	27	18	-	67	23	15	18	-	56
Amputations	-	-	-	-	-	-	1	-	-	1
Total	47	34	25	-	106	36	25	28	-	89

WORKPLACE ACCIDENTS AND TYPE – CONTRACTORS³⁴

	2018					2019				
	IT	PT	US	IN	GROUP	IT	PT	US	IN	GROUP
Total number of deaths due to workplace accidents	-	-	-	-	-	-	-	-	-	-
Total number of serious workplace accidents ³¹ (excluding deaths)	-	-	-	-	-	-	-	-	-	-
Total number of recordable workplace accidents	13	13	-	-	26	2	19	-	-	21
Hours worked	135,628	185,500	21,263	-	342,392	134,558	180,596	25,511	-	340,665
Death rate due to workplace injuries ³²	-	-	-	-	-	-	-	-	-	-
Serious workplace accident rate ³¹ (excluding deaths)	-	-	-	-	-	-	-	-	-	-
Recordable workplace accident rate ³³	95.9	70.1	-	-	75.9	14.9	105.2	-	-	61.6
Superficial injuries, open wounds and burns	6	3	-	-	9	1	11	-	-	12
Sprains, dislocations and fractures	7	10	-	-	17	1	8	-	-	9
Amputations	-	-	-	-	-	-	-	-	-	-
Total	13	13	-	-	26	2	19	-	-	21

31. A serious workplace accident refers to a workplace accident that leads to a death or injury from which the worker cannot recover, does not recover or from which it is unrealistic to expect them to fully recover and return to their state of health prior to the accident within 6 months.

32. The rate is calculated as follows: number of deaths due to workplace accidents/hours worked * 1,000,000

33. The rate is calculated as follows: number of recordable workplace accidents/hours worked * 1,000,000

34. The data relating to the Health and Safety of contractors only include the category of staff leasing workers and not other types of external staff who work at the Panariagroup Group's sites and/or under the Panariagroup Group's control, in view of their significance and of the availability of this data over which the Panariagroup does not exercise direct control.

LOCALLY HIRED MANAGEMENT

LOCALLY HIRED MANAGEMENT³⁵

	2018			2019		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
ITALY						
Senior manager	37	-	37	34	-	34
of whom hired locally	37	-	37	34	-	34
% of locally hired management	100%	-	100%	100%	-	100%
PORTUGAL						
Senior manager	11	3	14	11	3	14
of whom hired locally	11	3	14	11	3	14
% of locally hired management	100%	100%	100%	100%	100%	100%
US						
Senior manager	19	7	26	17	7	24
of whom hired locally	14	6	20	13	6	19
% of locally hired management	74%	86%	77%	76%	86%	79%
INDIA						
Senior manager	-	-	-	3	-	3
of whom hired locally	-	-	-	3	-	3
% of locally hired management	-	-	-	100%	-	100%
GROUP TOTAL						
Senior manager	67	10	77	65	10	75
of whom hired locally	62	9	71	61	9	70
% of locally hired management	93%	90%	92%	94%	90%	93%

COLLECTIVE BARGAINING AGREEMENTS

EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS AS OF 31 DECEMBER³⁶

	2018					2019				
	IT	PT	US	IN	GROUP	IT	PT	US	IN	GROUP
Employees covered by collective bargaining agreements	820	438	-	-	1,258	804	447	-	-	1,251
%	100%	99%	0%	-	72%	100%	99%	0%	0%	70%

35. In defining locally hired management, management with citizenship in the country where each Business Unit of the Group is located was considered local.

36. No collective bargaining agreements are in force in the USA and India.

STANDARD SALARY FOR NEW HIRES

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

	2018							
	IT		PT		US ³⁷		IN	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Ratio between the standard new hire level and the local minimum salary, by gender	1.0	1.0	1.0	1.0	1.6	1.6		

	2019							
	IT		PT		US		IN	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Ratio between the standard new hire level and the local minimum salary, by gender	1.0	1.0	1.0	1.0	1.8	1.8	1.2	1.2

37. Please note that due to an improvement in the reporting system of the American Business Unit, the 2018 data concerning the relationship between the standard new hire level and the local minimum salary has been restated with respect to the data published in the previous NFS. For the previously published data, see the 2018 Sustainability Report, published in the Sustainability section on www.panariagroup.it.

7.3 DATA ON THE SUPPLY CHAIN

For 2019, the scope of the supply chain data refers to the Group companies that operate production sites. Companies with only commercial offices and Montanari Ceramiche S.r.l., a retail outlet for ceramic

material, are excluded, since they are not considered relevant to an understanding of the Group's business activities and the impact of its products.

LOCAL SUPPLIERS

EXPENDITURE ON LOCAL SUPPLIERS (MILLIONS OF EURO)

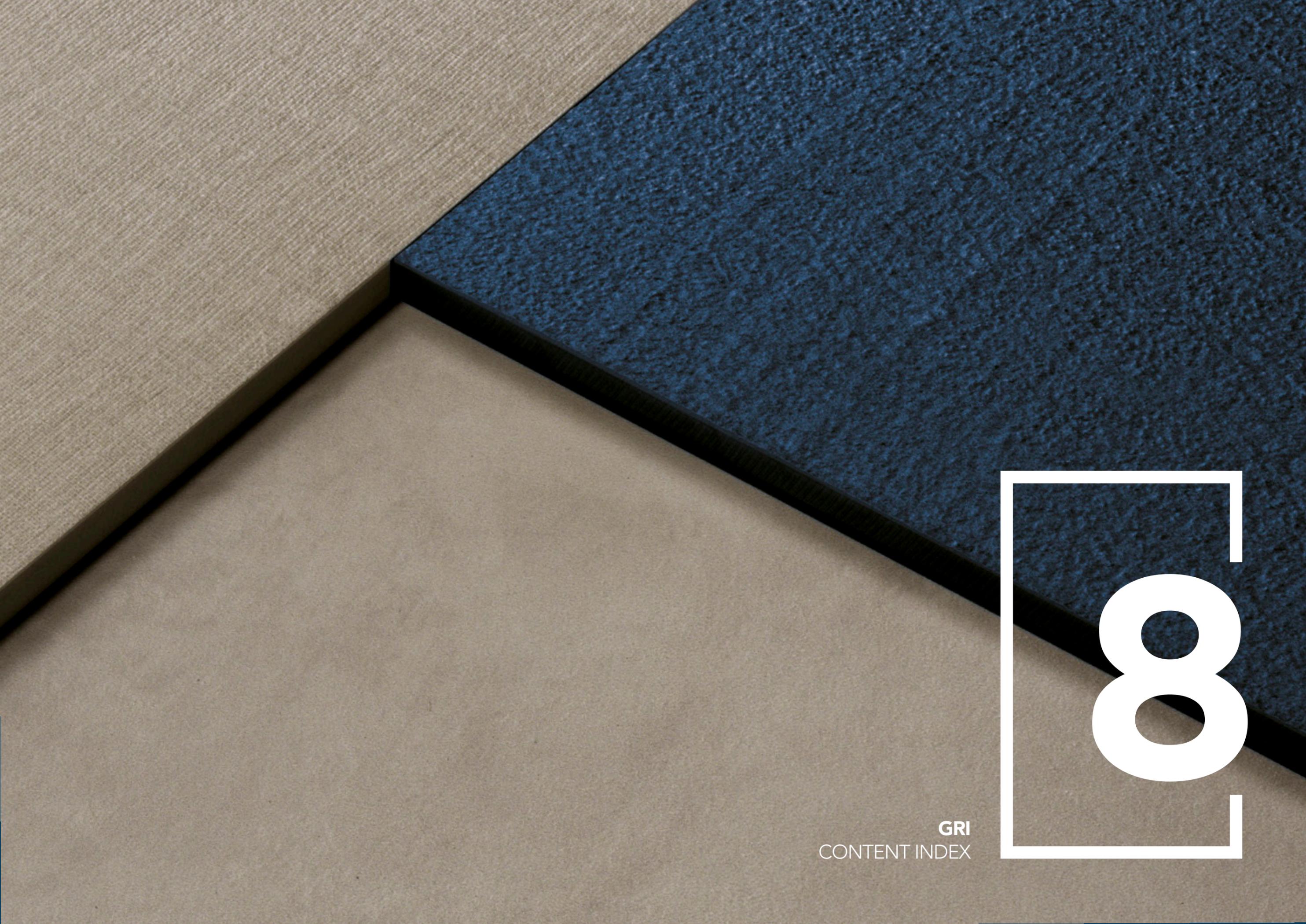
	2018				2019			
	IT	PT	US	GROUP	IT	PT	US	GROUP
Proportion of expenditure on local suppliers ³⁸	127	48	65	240	131	51	63	245
All suppliers	132	56	76	264	143	57	70	270
% of expenditure on local suppliers out of total purchases	96%	86%	86%	91%	91%	91%	90%	91%

MATERIALS USED

MATERIALS USED BY WEIGHT (t)

	2018				2019			
	IT	PT	US	GROUP	IT	PT	US	GROUP
Clay	137,088	90,313	31,088	258,489	131,441	99,515	39,780	270,736
Feldspar	129,740	69,262	38,351	237,353	124,351	72,120	46,487	242,958
Sand	58,677	9,066	8,209	75,952	58,579	10,990	9,321	78,891
Glazes and colouring agents	9,601	5,463	1,513	16,578	10,105	5,584	1,654	17,342
Atomized	-	-	-	-	-	-	-	-
Zirconium/whitening agents	914	333	177	1,424	1,422	452	175	2,048
Additives	2,525	1,062	576	4,164	2,465	1,124	624	4,213
Ground fired material	17,766	1,279	-	19,045	18,447	2,596	-	21,043
Packaging	12,392	896	3,533	16,821	12,727	1,186	3,718	17,631
Other	2,954	8,890	4,093	15,937	3,784	9,462	1,562	14,808
Total	371,657	186,565	87,541	645,763	363,321	203,028	103,321	669,670

38. In defining expenditure on local suppliers, "local suppliers" were considered to be those suppliers with a registered office in the country in which each Business Unit operates. The monetary value for local supplier is calculated net of intercompany transactions and VAT for all the reference countries.



GRI
CONTENT INDEX

8

8.0 GRI CONTENT INDEX

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GRI STANDARDS	DISCLOSURE	PAGE	OMISSION
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INDEPENDENT
AUDITOR'S
REPORT

9

9.0 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 OF JANUARY 2018**

**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 "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, 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 "Panariagroup Group" or "Group") as of December 31, 2019 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 13, 2020 (hereinafter "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 Group.

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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Responsabilità della società di revisione

È nostra la responsabilità di esprimere, sulla base delle procedure svolte, una conclusione circa la conformità della DNF rispetto a quanto richiesto dal Decreto e ai GRI Standards. Il nostro lavoro è stato svolto secondo quanto previsto dal principio "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (di seguito "ISAE 3000 Revised"), emanato dall'International Auditing and Assurance Standards Board (IAASB) per gli incarichi di limited assurance. Tale principio richiede la pianificazione e lo svolgimento di procedure al fine di acquisire un livello di sicurezza limitato che la DNF non contenga errori significativi. Pertanto, il nostro esame ha comportato un'estensione di lavoro inferiore a quella necessaria per lo svolgimento di un esame completo secondo l'ISAE 3000 Revised ("reasonable assurance engagement") e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti e le circostanze significativi che potrebbero essere identificati con lo svolgimento di tale esame.

Le procedure svolte sulla DNF si sono basate sul nostro giudizio professionale e hanno compreso colloqui, prevalentemente con il personale della società responsabile per la predisposizione delle informazioni presentate nella DNF, nonché analisi di documenti, ricalcoli ed altre procedure volte all'acquisizione di evidenze ritenute utili.

In particolare, abbiamo svolto le seguenti procedure:

1. Analisi dei temi rilevanti in relazione alle attività e alle caratteristiche del Gruppo rendicontati nella DNF, al fine di valutare la ragionevolezza del processo di selezione seguito alla luce di quanto previsto dall'art. 3 del Decreto e tenendo presente lo standard di rendicontazione utilizzato.
2. Analisi e valutazione dei criteri di identificazione del perimetro di consolidamento, al fine di riscontrarne la conformità a quanto previsto dal Decreto.
3. Comparazione tra i dati e le informazioni di carattere economico-finanziario inclusi nella DNF e i dati e le informazioni inclusi nel Bilancio Consolidato del Gruppo Panariagroup.
4. Comprensione dei seguenti aspetti:
 - modello aziendale di gestione e organizzazione dell'attività del Gruppo, con riferimento alla gestione dei temi indicati nell'art. 3 del Decreto;
 - politiche praticate dall'impresa connesse ai temi indicati nell'art. 3 del Decreto, risultati conseguiti e relativi indicatori fondamentali di prestazione;
 - principali rischi, generati o subiti connessi ai temi indicati nell'art. 3 del Decreto.

Relativamente a tali aspetti sono stati effettuati inoltre i riscontri con le informazioni contenute nella DNF e effettuate le verifiche descritte nel successivo punto 5, lett. a).

5. Comprensione dei processi che sottendono alla generazione, rilevazione e gestione delle informazioni qualitative e quantitative significative incluse nella DNF.

In particolare, abbiamo svolto interviste e discussioni con il personale della Direzione di Panariagroup Industrie Ceramiche S.p.A. e con il personale di Gres Panaria Portugal S.A. e Florida Tile Inc. e abbiamo svolto limitate verifiche documentali, al fine di raccogliere informazioni circa i processi e le procedure che supportano la raccolta, l'aggregazione, l'elaborazione e la trasmissione dei dati e delle informazioni di carattere non finanziario alla funzione responsabile della predisposizione della DNF.

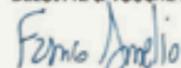
Inoltre, per le informazioni significative, tenuto conto delle attività e delle caratteristiche del Gruppo:

- a livello di capogruppo e società controllate:
 - a) con riferimento alle informazioni qualitative contenute nella DNF, e in particolare a modello aziendale, politiche praticate e principali rischi, abbiamo effettuato interviste e acquisito documentazione di supporto per verificarne la coerenza con le evidenze disponibili;
 - b) con riferimento alle informazioni quantitative, abbiamo svolto sia procedure analitiche che limitate verifiche per accertare su base campionaria la corretta aggregazione dei dati;
- per le seguenti società e siti, sede e sito produttivo di Fiorano Modenese per Panariagroup Industrie Ceramiche S.p.A., sede e sito produttivo di Aveiro per Gres Panaria Portugal S.A., che abbiamo selezionato sulla base delle loro attività, del loro contributo agli indicatori di prestazione a livello consolidato e della loro ubicazione, abbiamo effettuato visite in loco nel corso delle quali ci siamo confrontati con i responsabili e abbiamo acquisito riscontri documentali circa la corretta applicazione delle procedure e dei metodi di calcolo utilizzati per gli indicatori.

Conclusioni

Sulla base del lavoro svolto, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che la DNF del Gruppo Panariagroup relativa all'esercizio chiuso al 31 dicembre 2019 non sia stata redatta, in tutti gli aspetti significativi, in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e ai GRI Standards.

DELOITTE & TOUCHE S.p.A.



Franco Amelio
Socio

Milano, 31 marzo 2020



PANARIAGROUP'S
RESPONSE
TO MANAGING
THE COVID-19
EMERGENCY



Our
responsibility

OUR RESPONSIBILITY

Stakeholders play a fundamental role in Panariagroup's sustainable growth.

With this document, **Panariagroup wishes to renew its commitment to promoting responsible and transparent communication with its stakeholders**, sharing the measures implemented by the Group to respond to the health emergency caused by the global spread of SARS-CoV-2, as well as the impact of this situation and the outlook for the future.

EXECUTIVE SUMMARY

● **Panariagroup has managed the health emergency by prioritizing its staff, their health and safety and that of their families.** From the outset, the Group has worked to create special committees and to draw up security protocols that set out stricter guarantees than those provided for in the agreements with institutions and social partners, both in the initial lockdown phase and in the subsequent phase.

● The need to **guarantee continued operations** presented a challenge that the Group has faced with commitment and determination through **transparent, constant communication, both within the company and externally, the expansion of smart working methods and full readiness to provide its employees with all the tools and equipment necessary for business continuity**, conditions that have enabled the Group's staff to carry out their work as efficiently as possible.

● **Panariagroup has gone beyond what is required by the current scenario** and, in line with its principles and values, it has demonstrated **continuous solidarity towards its employees.** In this spirit, the Group has launched extraordinary initiatives, such as the creation of a Solidarity Fund for the employees most affected by redundancy measures, the organisation of a collection of basic necessities and support for staff with special family needs.

● Determined to act and look to the future, **the Group has responded to the emergency context with a proactive and courageous approach**, focusing on safety, solidarity and timely reorganisation of its operations to ensure business continuity.

1.0 OUR GROUP AND THE INTERNATIONAL CRISIS

The challenges posed by the global spread of SARS-CoV-2 may well represent **the worst economic and social crisis since the Second World War**. Restrictions adopted by governments on the movement of people, goods and products, as well as containment measures such as the closure of non-essential production factories, have had and continue to have a major impact on the community, individuals and the economy in general.

Panariagroup is a multinational company rooted in Italy. It began to expand abroad back in the early 2000s. The company started this far-sighted internationalization process by making a number of

strategic acquisitions in Portugal and then gained a solid foothold in the USA on the key North American market. Today Panariagroup operates 6 plants (3 in Italy, 2 in Portugal and 1 in the USA) and also controls a company in India to cover the local market. Every year the company produces about 23 million square metres of ceramic tiles, which it distributes to over 10,000 customers in more than 130 countries around the world. Panariagroup employs a total of almost 1,800 people.

Panariagroup, therefore, pays particular attention to international developments and has always based its economic success on ensuring

the economic prosperity of the areas in which it operates, not only in Italy but also abroad, in the Aveiro district in Portugal and in Lawrenceburg in Kentucky, by maintaining employment levels, promoting relations with local communities and creating shared value.

The COVID-19 emergency has proved to be an entirely new and unexpected scenario, which has presented companies with important strategic

choices: from the outset, Panariagroup has sought to provide **a timely and concrete response to the emergency, strengthening its resilience model** to protect its business plan and the safety of its employees, in line with a policy centred around staff well-being, quality and excellence.



Italy, Portugal and USA

the countries where the Group's production plants are located



Over 1000 employees

of the Group were affected by the virus containment measures adopted in the plants and in the logistics area



Over 200 employees

of the Group changed their work practices during the health emergency thanks to smart working

2.0 CONTEXT OF THE HEALTH EMERGENCY

In early July 2020, the World Health Organization reported more than 10 million cases of COVID-19 globally, with varying situations in different geographical areas.

Italy was the first western country to face the Coronavirus epidemic and it remains one of the most severely affected countries. The health

emergency and the measures designed to contain it, in particular the introduction of the lockdown ordered by the DPCM (Prime Ministerial Decree) of 9 March and the closure of all non-essential production activities set out in the DPCM of 11 March, have inevitably had a negative impact on society and the economy, which could suffer an estimated 12.8% contraction in GDP in 2020¹.



Over 11 million
COVID-19 cases worldwide in early July 2020



USA
The most affected Country in the world in late June 2020, both in terms of the number of cases and deaths from COVID-19



-12.8%
Estimated contraction of GDP in Italy in 2020



Over 30,000
The negative balance of operating Italian companies in the first quarter of 2020²



-8.0%
Estimated contraction of GDP in Portugal in 2020



Almost 70% of Portuguese companies reported a negative impact on turnover due to COVID-19⁴



-8.0%
Estimated contraction of GDP in the USA in 2020



43% of Americans have said that their personal income has been significantly impacted⁵

Other countries have constantly monitored the development of the situation, benefiting from both a time advantage and the first results regarding the effectiveness of the measures implemented by the Italian government. Notably, in Portugal the government ordered a lockdown as soon as the country experienced its first cases and has managed to contain the emergency with comparatively less damage than in other countries. Despite the country's effective management of the emergency

situation, it is estimated that Portugal's GDP may contract by 8% in 2020³.

Finally, the USA, partly due to initial scepticism about the potential dangers of the virus' spread, currently has the highest number of Coronavirus infections and deaths in the world. In the USA, the spread of COVID-19 is expected to cause a fall in GDP of 8% in 2020¹.

Lockdown start dates



1. IMF, World Economic Outlook Update, June 2020.
2. Unioncamere - InfoCamere, Birth and mortality rate of Italian companies registered with the Chambers of Commerce - First quarter 2020, April 2020.
3. IMF, World Economic Outlook, April 2020.
4. Instituto Nacional de Estatística - Banco de Portugal, Inquérito Rápido e Excepcional às Empresas - COVID-19, 1.ª quinzena de junho, June 2020.
5. McKinsey, global survey on the impact of COVID-19 on personal income, May 2020.
6. The US federal states have adopted different measures according to the specific context of each area. The above date refers to the first lockdown on US territory (State of California).

3.0 EMERGENCY MANAGEMENT

Faced with an initially uncertain and highly changeable emergency scenario, **the Group has worked from the outset to create an effective and timely model that can provide a concrete and, if possible, pre-emptive response to the spread of COVID-19.**

Panariagroup's model is based on the creation of specific committees responsible for monitoring and managing the crisis, and the drafting of company protocols containing measures to combat and contain the virus.

PANARIAGROUP'S RESPONSE

Creation of special committees and drafting of company protocols for crisis management

The Group's protocols and guidelines are based on those shared by each government to combat and contain the spread of COVID-19 in the workplace.

In drafting these guidelines, the Group has taken additional precautionary measures in order to further protect the health and safety of its staff and Panariagroup's business partners. The protocols contain, among other things, clear regulations regarding:

-  Management of people entering the company and access procedures for external suppliers
-  Daily cleaning and regular sanitization of the premises
-  Personal hygiene precautions
-  Use of Personal Protective Equipment
-  Management of communal areas
-  Management of company organisation (smart working and flexible working hours)
-  Management of travel, meetings and internal events
-  Guest management
-  Health surveillance by the company doctor
-  Management of symptomatic individuals in the company

3.1 THE MOMENT OF THE LOCKDOWN

In compliance with government lockdown measures, the Group was forced to halt its production activities, first at the end of March in the 3 Italian plants, and then in the first half of April in the 2 Portuguese plants. However, production activities have continued as normal at the Lawrenceburg plant in Kentucky, an area that has suffered a relatively low impact compared to the situation across the USA; in mid-June, the state of Kentucky recorded around 12,000 cases of COVID-19, compared to a total of over 2 million cases in the USA in the same period. The continuation of production activities in America

was also made possible by the inclusion of the company, by the Governor of Kentucky, in the list of operators considered essential for the economy.

As well as complying with government regulations, the decision to suspend production at the European plants followed a series of strict regulations already implemented by the company to protect the health and safety of its employees in the workplace, which has always been a priority for the Group. A great sacrifice and a flexible response, realistically acknowledging an external economic situation that was momentarily stalling.

In conjunction with the suspension of production activities and the consequent initiation of the redundancy fund for many white-collar and blue-collar workers, Panariagroup has been committed to ensuring business continuity by providing, on the one hand, clear and constant communication about the changing circumstances and, on the other hand, by implementing the necessary measures to enable its



One of the rollup banner distributed in the Italian facilities of the Group

-  **Safety First**
The Group's commitment to its employees
-  **Halting production**
in the Italian and Portuguese production plants
-  **Business continuity**
Clear and constant communication and digitalization of work

employees to work as smoothly as possible via smart work solutions, a working method that has already been implemented by the American Business Unit for several years.

In line with its principles, **Panariagroup has always been committed to ensuring transparent company management, communication and information.** In this respect, throughout the emergency period and particularly in the early stages, communication has played a fundamental role in maintaining a direct line between the Group and both its internal and external stakeholders

With regard to its employees, Panariagroup immediately organized, prior to the suspension of production activities, **a communication system designed to provide useful information on the nature of SARS-CoV-2, to monitor the continuous development of the situation and to ensure clear identification of the current context.**

Through e-mails, video content, information on company bulletin boards and information totems, the Group has taken steps to immediately inform all its employees, including with regard to the protocols adopted by the company and updated as required.

The first communications described the precautionary measures implemented by

the Group, many of which are stricter than government recommendations and have been implemented as a matter of precaution for the health and safety of its employees, including the suspension of business trips, restrictions on visits by suppliers and customers, support for staff who, due to the suspension of school activities, have special requirements in terms of flexible working hours, and sharing of the recommendations that are periodically provided by each competent national authority.

These initial communications have been followed by further communications more than once a week, which have provided precise information on the work organisation to ensure business continuity; the Group has issued clear instructions regarding the use of past leave, the shift system within departments/offices, the management of communal areas such as changing rooms and bathrooms and the organisation of meetings and direct meetings which must only be held if essential and in compliance with precise time and physical distancing limits.

Similarly, Panariagroup has ensured clear and transparent communication with its external stakeholders, such as suppliers and guests, who have been notified of the company protocols

Timeliness and coverage
Characteristics of the communication system used by the Group



Clippings on the Solidarity Fund

adopted by the company and specific to their case, customers, who have been informed of the company scenario by e-mail, online channels (the Internet and social media) and press releases, and shareholders, for whom Panariagroup has followed the guidelines of Borsa Italiana and CONSOB, making a clear and explicit reference to the current situation and possible repercussions on the business.

While, on the one hand, communication has played a fundamental role in ensuring proper management of both internal and external information flows, on the other hand, **Panariagroup has been committed to accelerating the work digitalization process, which has required considerable work on IT systems in order to enable all employees to work without inconvenience.**

The Group has extended smart working to all employees who did not previously have this facility and, where necessary, has ensured the presence of at least one "key" figure in

each department, in compliance with current regulations. In addition to extending flexible working methods, Panariagroup has provided laptops and Internet access to employees who require them, demonstrating proactivity and timely decision-making, while ensuring efficient business continuity. The Group has also installed, on all devices, applications that enable remote operation and protection of the company's records.

In the firm belief that protecting the safety of its employees also means ensuring that both they and their families have peace of mind, Panariagroup then decided, in Italy and Portugal – the countries where the Group has been most severely impacted by the lockdown and where redundancy fund measures have been put in place – **to implement an initiative to support the staff most affected by reduced work.**

A Solidarity Fund has been created to which all managerial figures have been asked to contribute on a voluntary basis. They have been

3.2 RESTARTING OPERATIONS

given the option to donate a percentage of their salary to employees who have seen their salaries fall due to recourse to the redundancy fund. All the funds raised will be redistributed in the coming months, according to methods that differ between Italy and Portugal, to blue-collar and white-collar workers in proportion to the number of hours within the redundancy scheme.

Panariagroup is proud of the management team's enthusiastic contribution to this concrete solidarity initiative to provide support to colleagues

during this challenging time, demonstrating the social responsibility values upheld by the Group's employees on a daily basis.

In Portugal, Panariagroup offered further support to its employees through **the creation of a collection of basic necessities**, including non-perishable food products and personal and household hygiene products, which were provided to families of employees in particular financial difficulty. All Portuguese employees were able to participate in the initiative, both as donors and as beneficiaries.

In early May 2020, Panariagroup restarted its operations in all its departments, both in Italy and in Portugal.

The production plants, which were previously closed to comply with government lockdown measures, resumed their regular service with reduced production operations, while the logistics and shipping offices, as well as other areas essential to ensure the Group's business continuity, have never stopped operating.

Management of employees' return to offices and production facilities was

conducted in the same spirit as the Group's initial response to the emergency: clarity and proactivity.

Once again, Panariagroup has been committed to developing a system capable of ensuring that work can resume while fully respecting the health and safety of its staff and in particular of individuals identified as most at risk.

To this end, the Group has updated its company protocols and communicated, both internally and externally, the provisions contained therein.



Support for staff

The Group has provided PCs and Internet connections to employees who did not previously have them



Over 40,000 hours

of smart working carried out between March and April 2020 in the Italian Business Unit



Unity and cooperation

In Italy and Portugal, the Group has created a Solidarity Fund to support the most affected employees



The strength of cohesion

In Portugal, the Group has created a collection of basic necessities for employees in particular financial difficulty



It should be noted that in drawing up its safety protocols, Panariagroup has gone beyond the provisions of the agreements with institutions and social partners, implementing even stricter and more rigorous protection and guarantee measures.

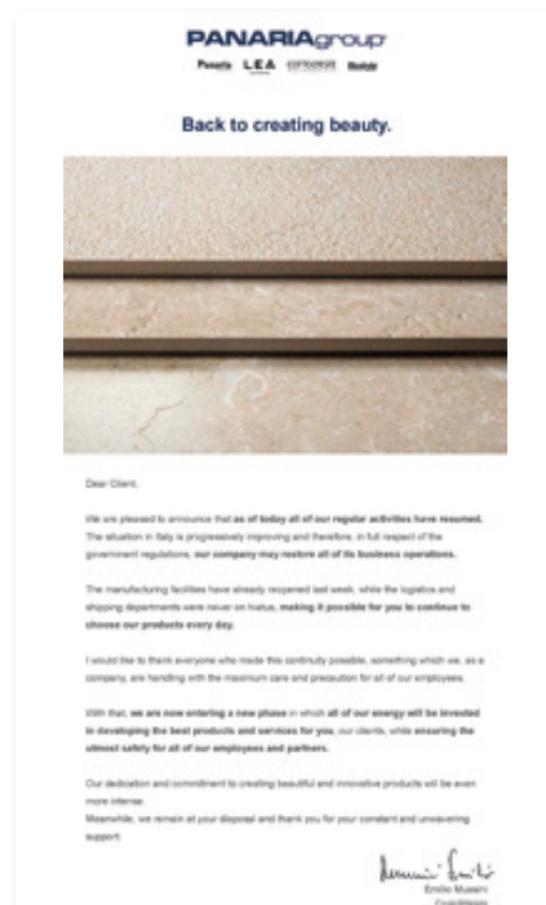
A first step to ensure the health and safety of its employees was to regulate those entering company premises, both at the offices and at the production plants. To this end, the Group has banned the entry of anyone subject to quarantine

measures by the health authorities, anyone who has been informed that they have come into contact with people who have tested positive for COVID-19 and anyone with symptoms directly attributable to the virus. Panariagroup has also put considerable effort into organising various access and exit points at all the production plants and, in agreement with trade union representatives, it has altered the timetable for shift changes to avoid potential crowding. At its offices, Panariagroup has updated its smart working procedures and reorganized its work spaces with Plexiglas barriers, more efficient organization of desks and, where possible, separation of people into different offices. Employees have also been informed about the precautionary measures which they must take in communal areas such as break rooms and toilets.

Organisation of people entering the company has also been regulated and communicated to all suppliers and guests, who, like employees, are required to read the current company protocols. For external supplier access, entry, transit and exit procedures have been identified using predefined methods, routes and timing to reduce contact opportunities with staff working in the departments/offices involved. With regard to guests, the Group has arranged for visits to be limited to those that are strictly necessary.

In addition to reorganizing access and workspace management, in order to guarantee a safe and appropriate environment for the resumption of work, Panariagroup has also reorganized the routine cleaning of all work environments, which has been stepped up and, in the production plants, rescheduled to coincide with shift changes.

The communication sent to Panariagroup customer to inform them of the restarting of operations



Panariagroup relaunches

In early May, the company resumed operations in all its departments, with reduced production operations

Toilet facilities, dining rooms, offices and door handles are cleaned daily by specialist companies. One or more containers of surface disinfectants with disposable paper towels have been placed in each office and employees have been given recommendations regarding the disinfection of their workstations and work equipment, which must be carried out at least twice a day, as well as advice on ventilation in the workplace.

In accordance with national health recommendations, the Group has also taken steps to ensure regular sanitization of the premises, workstations and communal areas, guaranteeing sanitization in both offices and production departments.

From the outset, Panariagroup has been committed to distributing masks, gloves and glasses to its staff on a daily basis, making it mandatory to wear a mask inside the offices, except when an employee is alone in the office, when they are at their workstation with several people and the workstations are more than two metres away from each other and protected by plexiglas barriers and with the air conditioning system turned off, and when they are outdoors more than two meters away from other people. A formal record is kept of equipment delivered to employees

through coordination with department/office heads or, in certain cases, through automatic collection systems with formal registration by reading the personal ID badge. If an employee loses their mask or it breaks, Panariagroup guarantees the supply of a new device. In Portugal, when surgical masks were supplied, employees were trained on correct methods for their use, maintenance and removal.

In the event that someone present in the company premises has symptoms associated with COVID-19, Panariagroup has set out specific steps that must be taken, both internally in the case of employees, and externally in the case of suppliers and guests, in order to immediately implement corrective measures in accordance with the relevant government guidelines.

Should someone present in the offices or production facilities develop fever and respiratory infection symptoms such as coughing, Panariagroup will isolate them according to the provisions of the health authority. The individual will then be promptly removed from the workplace to ensure their colleagues' safety and a safe workplace. If someone present in the company premises has tested positive for COVID-19, the Group commits to working with the health authorities to identify

any close contacts of the person identified as positive. This will allow Panariagroup to implement the appropriate quarantine measures.

Finally, conscious that the COVID-19 emergency is also having a severe psychological impact on people, who, like companies, have found themselves in a completely unprecedented situation, Panariagroup has always maintained a constant dialogue with all its employees focused on supporting and understanding any personal individual and/or family needs. In Portugal, for example, faced with a significant

increase in remote working hours, suggestions and recommendations have been shared on how to ensure proper mental and physical well-being, as well as a list of useful numbers to call if necessary.



One of the signs to inform on safety procedures



Production plants

Reorganization of access and exit points and rescheduling of shift changes



Offices

Updating of smart working methods and reorganisation of workspaces



Risk-free work

The Group ensures daily cleaning and regular sanitization of the workplace



Management of symptomatic individuals

The Group has envisaged specific scenarios to implement protective measures and corrective actions



Support and listening

Panariagroup guarantees a constant dialogue to protect the well-being of its employees

4.0

OUR RESILIENCE AND FUTURE OUTLOOK

The novel Coronavirus emergency has highlighted the fragility of our economic and social system, highlighting the need to promote more resilient development models that are more focused on people's well-being and on creating a stronger sense of community.

Panariagroup has reacted quickly and decisively, supported by a workforce with an innate ability to fight and resist. An ability that stems from almost 50 years of history, which has included both exciting periods and regrettably dramatic moments (such as the earthquake in Emilia in 2012, another major emergency), all of which have been faced with enormous resilience.

Resilience is the ability to continue in the face of shock and adversity, adapting and transforming in a sustainable way.

Sustainability that is part of our business model and culture, which, even during the COVID-19 emergency, has led us to prioritize people and business continuity. **In other words, social and economic responsibility, attention to our employees, their health and their families.**

With the desire to go further, not to simply endure the situation but to face it with courage, making major commitments in terms of safety, solidarity and reorganisation of operations.

We wanted to do more than what was asked of us, implementing special initiatives such as the Solidarity Fund, for which the management team of the Italy and Portugal Business Units joined forces to donate part of their salary to colleagues affected by the redundancy fund.

This has been our way of dealing with this crisis, **together with all our employees, whom we thank for the passion, commitment, reliability and dedication to the company** that they have continued to demonstrate throughout these difficult months.

Panariagroup increasingly wishes to be the driving force behind a shared development project and will tenaciously pursue this ambition, adapting and responding to constantly changing social, economic and environmental scenarios and continuing to raise its responsibility to new levels.



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BUILDINGS CREDITS:
Bosco Verticale, Porta Nuova, Milano
Sviluppato e gestito da COIMA
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