PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

# Directors' Interim Report on the 2011 Condensed Half-yearly Consolidated Financial Statements


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# Panariagroup Industrie Ceramiche

DIRECTORS' INTERIM REPORT

*(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)*

The condensed half-yearly consolidated financial statements at 30 June 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

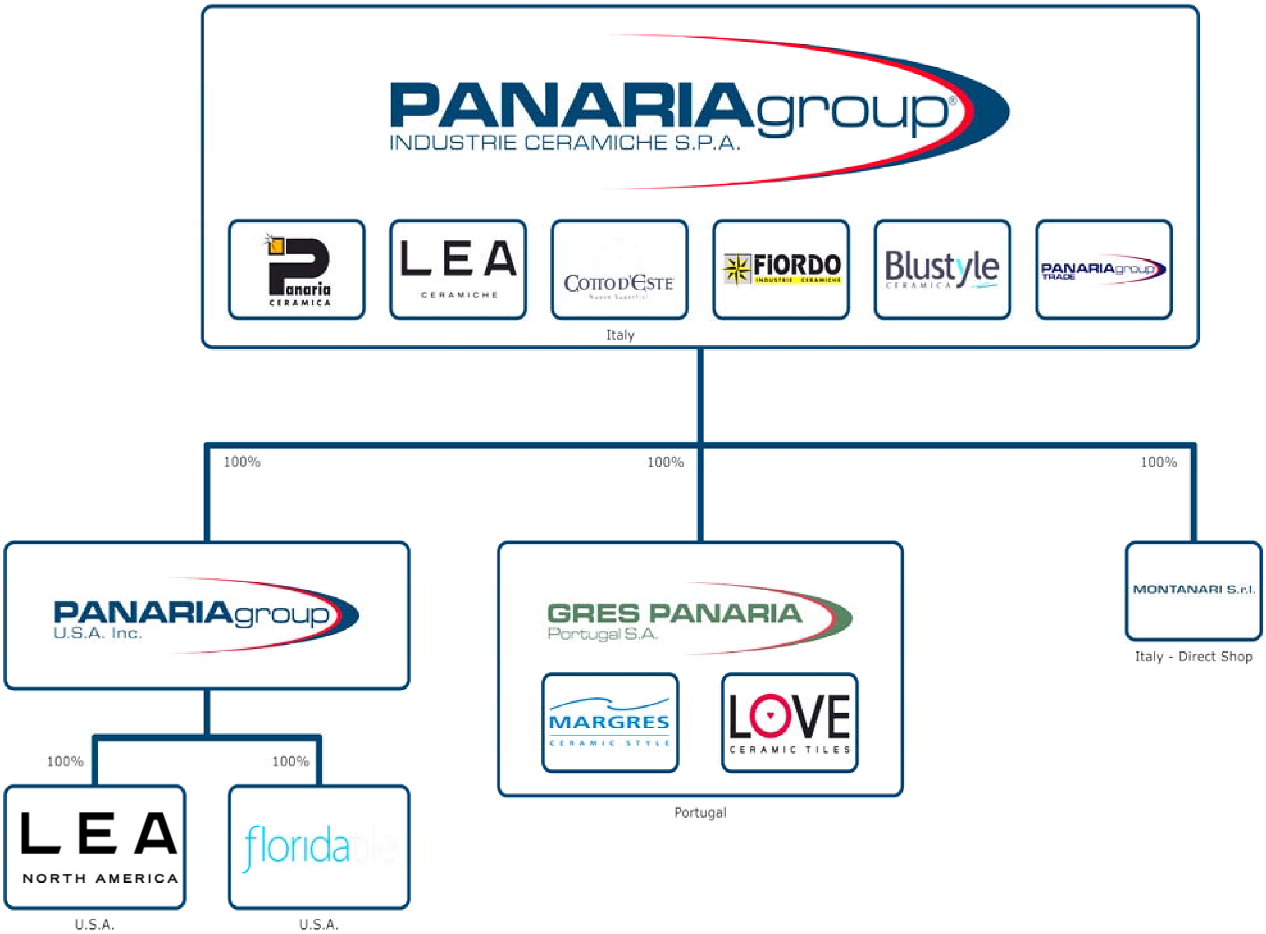
In particular, this condensed half-yearly consolidated report has been drawn up in accordance with IAS 34 "Interim Financial Reporting", which entails a significantly lower level of disclosure compared with that required for annual financial statements, providing that a complete set of IFRS-compliant financial statements has already been published.

The Group adopted the IFRS issued by the International Accounting Standards Board after European Regulation no. 1606 took effect in July 2002, starting with the financial statements for the first half of 2005. The accounting policies used in preparing these financial statements do not differ from those applied since the IFRS adoption date.

The Directors' Report does not include any alternative performance measures, so we are not required to provide any of the information indicated by the CESR (Committee of European Securities Regulators) in its Recommendation on Alternative Performance Measures (CESR/05-178b).

STRUCTURE OF THE GROUP

The structure of the Group at 30 June 2011 is as follows:




The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.**, based in Finale Emilia, Modena (Italy), with share capital of Euro 22,677,645.50.

Panariagroup produces and sells ceramic tiles for floors and walls under five distinctive brand names: Panaria, Lea, Cotto d’Este, Fiordo and Blustyle. All of these brands focus on the high-end luxury market segment and mainly sell porcelain gres product lines, both in Italy and abroad.

**Gres Panaria Portugal S.A**, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

Gres Panaria Portugal produces ceramic tiles for floors and walls under two separate brand names, Margres and Love Tiles, both aimed at the main European markets.

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

**Florida Tile Inc.,** based in Delaware, USA, share capital of USD 25,000,000, wholly owned by Panariagroup USA Inc., produces and sells ceramic tiles in the USA through its own distribution network located mainly on the East Coast.

**Lea North America LLC.**, based in Delaware, USA, share capital of USD 20,000, wholly owned by Panariagroup USA Inc.
This company markets Lea branded products on the North American market.

**Montanari Francesco S.r.l.**, based in Crespellano, Bologna (Italy), share capital of Euro 48,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This company runs a retail outlet for ceramic tiles.

## 2. DIRECTORS AND OFFICIALS

### Board of Directors

| Name | Office | Place and date of birth |
|---|---|---|
| Emilio Mussini | Chairman of the Board and Managing Director | Sassuolo (MO), 20/4/1961 |
| Giuliano Mussini | Deputy Chairman of the Board of Directors | Modena, 10/9/1930 |
| Giovanna Mussini | Deputy Chairman of the Board of Directors | Sassuolo (MO), 12/4/1959 |
| Andrea Mussini | Managing Director | Sassuolo (MO), 15/5/1958 |
| Giuseppe Mussini | Managing Director | Sassuolo (MO), 23/11/1962 |
| Paolo Mussini | Managing Director | Sassuolo (MO), 11/2/1958 |
| Giuliano Pini | Managing Director | Modena, 21/5/1952 |
| Marco Mussini | Director | Sassuolo (MO), 21/7/1971 |
| Alessandro Iori (*) | Director | Reggio Emilia, 15/6/1943 |
| Paolo Onofri (*) | Director | Bologna, 11/11/1946 |
| Enrico Palandri (*) | Director | Milan, 2/10/1962 |

(*) Independent non-executive director

### Board of Statutory Auditors

| Name | Office | Place and date of birth |
|---|---|---|
| Giovanni Ascari | Chairman of the Board of Statutory Auditors | Modena, 13/10/1935 |
| Vittorio Pincelli | Standing Auditor | Frassinoro (MO), 3/8/1943 |
| Stefano Premoli Trovati | Standing Auditor | Milan, 01/12/1971 |
| Corrado Cavallini | Alternate Auditor | Sassuolo (MO), 4/1/1971 |
| Massimiliano Stradi | Alternate Auditor | Sassuolo (MO), 16/3/1973 |

### Independent Auditors

Deloitte & Touche S.p.A.

# Directors' Interim Report on the 2011 Condensed Half-yearly Consolidated Financial Statements

## Results and significant events in the first half of 2011

### Results

Shareholders,

During the first half of 2011, the world economy again saw a high level of volatility.
Because of the persistence of the sovereign debt crisis in certain countries of the Euro-zone, Greece and Portugal in particular, the economy is more or less in a state of stagnation, with two notable exceptions: Germany and France.
As regards the United States, the rates of growth seen in 2010 have weakened, whereas the Japanese economy is experiencing a significant contraction because of the earthquake.
In the emerging economies, with the exclusion of certain North African countries that have been hit by grave political unrest, growth has continued to accelerate rapidly.
In Italy, the projections envisage GDP growth lower than 1% in 2011, with the main contribution to this trend coming from exports, given that domestic consumer spending continues to decline.
In this situation, our Group has managed to achieve a substantial increase in sales of Euro 4.2 million on last year. But despite this, the additional margin earned on the increase in sales and the constant measures taken to rationalise costs were absorbed by higher energy and raw material prices that have risen far more than expected.

The results for the first half of the year can be summarised as follows:

- Consolidated revenues from sales amounted to Euro 151.8 million, an increase of 2.87% on the same period in 2010.
- Gross operating profit came to Euro 14.2 million (Euro 15.6 million at 30/06/2010).
- Net operating profit amounted to Euro 4.9 million (Euro 5.6 million at 30/06/2010).
- Consolidated net profit amounted to Euro 1.0 million (at 30/06/2010 the net profit was Euro 3.6 million).

## Significant events

Given the ongoing success of our porcelain gres laminate products, investment at the Fiorano Modenese plant continued during the first half of 2011 with the installation of a second production line, which will enter service in October 2011.

This doubling of the production line will soon permit a considerable increase in turnover, which should in turn help the Group's bottom line.

# Review of the Group's results at 30 June 2011

### Income statement - Comparison between 30 June 2010 and 30 June 2011

(in thousands of euro)

| YTD | June 30, 2011 | % | June 30, 2010 | % | var. |
|---|---|---|---|---|---|
| **Revenues from sales and services** | **151,846** | **96.88%** | **147,610** | **98.80%** | **4,236** |
| Changes in inventories of finished products | 2,147 | 1.37% | (198) | -0.13% | 2,345 |
| Other revenues | 2,739 | 1.75% | 1,994 | 1.33% | 745 |
| **Value of Production** | **156,732** | **100.00%** | **149,406** | **100.00%** | **7,326** |
| Raw, ancillary and consumable materials | (43,304) | -27.63% | (38,517) | -25.78% | (4,787) |
| Services, leases and rentals | (61,457) | -39.21% | (58,581) | -39.21% | (2,876) |
| Personnel costs | (36,260) | -23.14% | (35,568) | -23.81% | (692) |
| Changes in inventories of raw materials | 77 | 0.05% | 346 | 0.23% | (269) |
| Other operating expenses | (1,601) | -1.02% | (1,451) | -0.97% | (150) |
| **Cost of production** | **(142,545)** | **-90.95%** | **(133,771)** | **-89.54%** | **(8,774)** |
| **Gross operating profit** | **14,187** | **9.05%** | **15,635** | **10.46%** | **(1,448)** |
| D&A expenses | (8,250) | -5.26% | (8,481) | -5.68% | 231 |
| Provisions and impairments | (992) | -0.63% | (1,536) | -1.03% | 544 |
| **Net operating profit** | **4,945** | **3.16%** | **5,618** | **3.76%** | **(673)** |
| Financial income and expense | (2,087) | -1.33% | 782 | 0.52% | (2,869) |
| **Pre-tax profit** | **2,858** | **1.82%** | **6,400** | **4.28%** | **(3,542)** |
| Income taxes estimated | (1,830) | -1.17% | (2,806) | -1.88% | 976 |
| **Net profit for the period** | **1,028** | **0.66%** | **3,594** | **2.41%** | **(2,566)** |
| **Cash Flow** | **10,270** | **6.55%** | **13,611** | **9.11%** | **(3,341)** |

The cash flow shown in this table is the sum of net profit, depreciation and amortisation, provisions and writedowns.

## Consolidated revenues

**Revenues from sales** have increased by 2.87%, from Euro 147.6 million at 30 June 2010 to Euro 151.8 million at 30 June 2011 (+ Euro 4.2 million).

**<u>Principal markets</u>**

The situations in the Group's various markets have differed quite considerably in sales terms.

**Europe** generally is in line with the first half of last year (+0.5%).

As regards the EU countries, where we have seen a slight increase on first half 2010 (+0.5%), the good growth seen in Germany and Austria, and in France, were entirely offset by the contractions in Portugal and Greece due to their economic and financial difficulties.

Overall, Eastern European markets turned in growth of 10.7% with good increases in Romania and Russia in particular.

The European market's share of total net sales comes to around 41%.

The **domestic market** reported an increase in business volume of 3.3% on the first half of 2010, better than national competitors that realized a slight decrease of 0.1% in the semester.

Once again, our Group's innovative products, particularly those in porcelain gres laminate, have helped boost our presence on the domestic market, despite the contraction in residential and commercial construction investments.

The Italian market's share of total net sales comes to around 30%.

Sales during the half-year on the **US market** confirm the growth trend that characterised the whole of 2010, with turnover in dollars rising by more than 10%. All of the Group's brands turned in growth in this area.

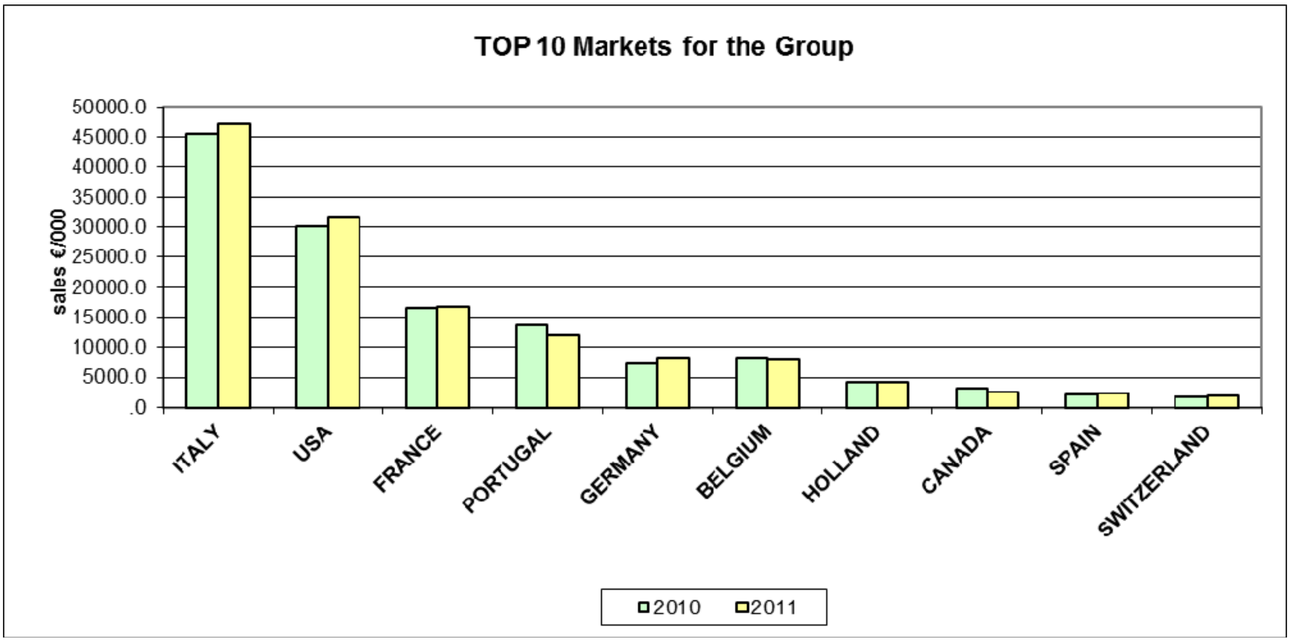
The US market's share of total net sales comes to around 20%.

**Overseas markets** (Asia and Oceania) are beginning to give positive results in terms of growth: the first half of 2011 posted an increase of +15.1% compared with last year.

The following table provides a breakdown of sales in Panariagroup's principal markets:

**Revenues by geographical area** (gross of customer incentives) (amounts in thousand euros)

| rk | Nation | June 30, 2011 | June 30, 2010 | var. | % |
|---|---|---|---|---|---|
| 1 | ITALY | 47,140 | 45,624 | 1,516 | 3.3% |
| 2 | USA | 31,543 | 30,080 | 1,463 | 4.9% |
| 3 | FRANCE | 16,832 | 16,486 | 346 | 2.1% |
| 4 | PORTUGAL | 12,028 | 13,717 | (1,689) | -12.3% |
| 5 | GERMANY | 8,089 | 7,284 | 805 | 11.1% |
| 6 | BELGIUM | 7,899 | 8,068 | (169) | -2.1% |
| 7 | HOLLAND | 4,222 | 4,269 | (47) | -1.1% |
| 8 | CANADA | 2,489 | 3,100 | (611) | -19.7% |
| 9 | SPAIN | 2,417 | 2,119 | 298 | 14.1% |
| 10 | SWITZERLAND | 1,922 | 1,716 | 206 | 12.0% |
| | OTHERS | 20,297 | 18,091 | 2,206 | 12.2% |
| | **TOTAL** | **154,878** | **150,554** | **4,324** | **2.9%** |




The table shows the trends in the main countries, as already reported.

As regards the Italian business unit, it is worth highlighting the growth of the Italian brands which overall achieved an increase in sales of more than 6%, reversing the trend of the last two years.

Still in terms of individual brand turnover, the results generally are positive with the sole exception of the Portuguese brands; while hit by the crisis on the domestic market, they managed to expand abroad, which limited the decline in sales.

## Operating results

The **gross operating profit** of Euro 14.2 million accounts for 9.1% of the value of production (Euro 15.6 million or 10.5% at 30 June 2010), with a decline of Euro 1.4 million.

The main factors behind this decrease in Group profitability are:

- Reduced margins because of the increase in energy prices, electricity and gas, particularly for the Italian business unit: the increases came to 5.9% and 25.3% respectively, with an impact on the income statement of more than Euro 1 million;
- Reduced margins because of higher raw material prices, particularly for feldspar and zirconium, and higher transport costs;
- Better margins thanks to higher volumes produced compared with the first half of 2010, which rendered the plants more efficient and reduced the incidence of fixed production overheads.

The **net operating profit** is slightly down on first half 2010 at Euro 4.9 million (Euro 5.6 million at 30 June 2010).
Depreciation is substantially in line with the first half of 2010.

The **pre-tax result** is a profit of Euro 2.9 million (Euro 6.4 million at 30 June 2010).

As regards the interest cost on debt, there have not been any increases compared with the first half of 2010.

The result of **financial operations** was penalised by the devaluation of the dollar, which has fallen by more than 6% since the beginning of the year, whereas the trend in first half 2010 was the opposite, with the dollar appreciating by 5%. This trend in the Euro/Dollar exchange rate generated an exchange loss of Euro 0.4 million in first half 2011, whereas in first half 2010 there was an exchange gain of Euro 2.6 million, with a very positive impact on that period’s result.

The estimated tax burden comes to Euro 1.8 million.

The **consolidated net profit** for the period amounts to Euro 1 million versus Euro 3.6 million in the first half of 2010.

## Review of the Statement of financial position

## Summary of the Reclassified Consolidated Statement of financial position

**(in thousands of euro)**

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|---|---|---|---|
| Inventories | 135,268 | 134,943 | 134,460 |
| Accounts Receivable | 97,436 | 83,647 | 101,296 |
| Other current assets | 7,119 | 8,095 | 5,443 |
| **CURRENT ASSETS** | **239,823** | **226,685** | **241,199** |
| Accounts Payables | (64,258) | (59,947) | (63,802) |
| Other current liabilities | (35,494) | (27,145) | (30,171) |
| **CURRENT LIABILITIES** | **(99,752)** | **(87,092)** | **(93,973)** |
| **NET WORKING CAPITAL** | **140,071** | **139,593** | **147,226** |
| Goodwill | 12,789 | 12,789 | 12,789 |
| Intangible assets | 2,735 | 3,187 | 3,428 |
| Tangible assets | 87,696 | 90,218 | 93,373 |
| Equity Investments and other financial fixed assets | 5 | 4 | 4 |
| **FIXED ASSETS** | **103,225** | **106,198** | **109,594** |
| Receivables due after the following year | 263 | 278 | 297 |
| Provisions for termination benefits | (6,332) | (6,440) | (6,536) |
| Provisions for risks and charge and deferred taxes | (5,582) | (10,294) | (11,035) |
| Other payables due after the year | (538) | (560) | (648) |
| **ASSETS AND LIABILITIES DUE AFTER THE YEAR** | **(12,189)** | **(17,016)** | **(17,922)** |
| **NET CAPITAL EMPLOYED** | **231,107** | **228,775** | **238,898** |

| | | | |
|---|---|---|---|
| Short term financial assets | (5,078) | (2,328) | (4,389) |
| Short term financial debt | 50,004 | 37,190 | 42,611 |
| **NET SHORT TERM FINANCIAL DEBT** | **44,926** | **34,862** | **38,222** |
| Mid-long term financial debt | 37,829 | 43,740 | 45,838 |
| **NET FINANCIAL POSITION** | **82,755** | **78,602** | **84,060** |
| Group Shareholders' Equity | 148,352 | 150,173 | 154,838 |
| **SHAREHOLDERS' EQUITY** | **148,352** | **150,173** | **154,838** |
| **TOTAL SOURCES OF FUNDS** | **231,107** | **228,775** | **238,898** |

As required by CONSOB Communication DEM/6064293 of 28 July 2006, a reconciliation between the consolidated reclassified Statement of financial position and the related format used for IFRS purposes is attached to the directors' report.

## Net working capital

Compared with the first half of 2010, working capital shows a reduction (Euro -7.2 million). It is worth highlighting that, despite the difficult state of the economy, which affected liquidity, the ratio of trade receivables to net sales showed a certain improvement with a reduction in collection times. As regards inventories, there has been a slight increase at the foreign plants since the beginning of the year, whereas stocks have fallen in Italy.

## Fixed assets

Fixed assets have decreased by Euro 3 million since the start of the year.

This decrease was due to:

- net capital expenditure of Euro 6.3 million: of this, Euro 4.5 million was spent in Italy, Euro 0.9 million in Portugal and Euro 0.9 million in the United States.
- the lower value of fixed assets of the US sub-consolidation expressed in euro because of the weakening of the dollar since the end of 2010, for Euro 1.1 million.
- depreciation and amortisation for the period of Euro 8.2 million.

## Net financial position

**Financial cash flow**
*(thousands euro)*

| | June 30, 2011 | December 31, 2010 | June 30, 2010 |
|---|---|---|---|
| **Net financial position (debt) - beginning** | **(78,602)** | **(86,781)** | **(86,781)** |
| Net Result for the period | 1,028 | 1,444 | 3,594 |
| D & A | 8,250 | 17,402 | 8,481 |
| Net Variation Provisions | 136 | 3,348 | 1,540 |
| **Internal operating Cash flow** | **9,414** | **22,194** | **13,615** |
| Change in net working capital | (5,441) | (4,371) | (9,290) |
| Dividend distribution | 0 | 0 | 0 |
| Net Investments | (6,480) | (10,607) | (3,695) |
| Other movements | (1,646) | 963 | 2,091 |
| **Net financial position (debt) - final** | **(82,755)** | **(78,602)** | **(84,060)** |

There has been an improvement in the net financial position compared with the first half of 2010, even though there was a considerable increase in capital investments during 2011.

## Segment information

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

By contrast, the previous standard, IAS 14 – Sector reporting, required the identification of segments (primary and secondary) with reference to the related risks and benefits; the system of reporting used was only a starting point for such identification.

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

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

- The breakdown of revenues by principal geographical area and by type of product is provided in the table presented in the earlier section on "Revenues".
- The breakdown of total assets by geographical location is shown below:

**Breakdown of assets by geographical area** (amounts in thousand Euro)

| ASSETS | Italy | Europe | USA | Other | Total |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | **139,852** | **56,806** | **41,635** | **7,193** | **245,486** |
| Inventories | 83,501 | 24,679 | 27,088 | - | 135,268 |
| Trade receivables | 49,197 | 30,350 | 10,696 | 7,193 | 97,436 |
| Due from tax authorities | 3,670 | 596 | 4 | - | 4,270 |
| Other current assets | 2,033 | 207 | 1,194 | - | 3,434 |
| Cash and cash equivalents | 1,451 | 974 | 2,653 | - | 5,078 |
| **NON-CURRENT ASSETS** | **41,729** | **46,040** | **25,091** | **-** | **112,860** |
| Goodwill | 700 | 12,089 | - | - | 12,789 |
| Intangible assets | 1,090 | 277 | 1,368 | - | 2,735 |
| Property, plant and equipment | 39,767 | 33,674 | 14,255 | - | 87,696 |
| Financial assets | 4 | - | 9,373 | - | 9,377 |
| Deferred tax assets | - | - | - | - | - |
| Other non-current assets | 168 | - | 95 | - | 263 |
| **TOTAL ASSETS** | **181,581** | **102,846** | **66,726** | **7,193** | **358,346** |

| | Italy | Europe | USA | Other | Total |
|---|---|---|---|---|---|
| **Investments in tangible assets 2011** | **4,555** | **872** | **879** | **-** | **6,306** |

## Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continue as before also in 2011.

The ongoing search for high quality raw materials and the adoption of state-of-the-art technologies allow us to build product lines with highly innovative technical and aesthetic content, which guarantee supremacy in the high-end luxury segment of the ceramics market.

The new product lines created in 2011, especially those that will be presented at CERSAIE 2011 (the industry's most important trade fair) have completely new technical and aesthetic features. Above all, there are the porcelain gres laminate produced in thin (3mm) and large format (3m x 1m) plates and the new products made in collaboration with Microban. Their characteristics prevent the formation of bacteriological flora, making them particularly suitable for specialised uses (such as in hospitals, surgeries, food factories, etc.).

## Transactions with parent companies, affiliates and related parties

As regards the condensed half-yearly consolidated financial statements for 2011, related party transactions are explained in the notes.

In compliance with CONSOB Communication DEM/6064293 of 28 July 2006, we can confirm that the related-party transactions described in the explanatory notes almost all relate to the lease of industrial facilities used by the Parent Company for the conduct of its business.

## Reconciliation of the parent company's equity and net profit with the corresponding consolidated amounts

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net profit for the period with the corresponding consolidated amounts reported at 30 June 2011 (in thousands of euro):

| | Equity | Net Income (Loss) |
|---|---|---|
| **As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)** | **135,840** | **(1,575)** |
| a) Difference between the book value of equity investments and their value using the equity method | 12,678 | 1,433 |
| b) Elimination of unrealised gains arising on the intercompany transfer of inventories | (514) | (115) |
| c) Reversal of exchange losses (gains) on intercompany loan | 0 | 1,301 |
| d) Alignment to Group depreciation's rates | 204 | (11) |
| e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments | 62 | (5) |
| f) Others | 82 | 0 |
| ***Net effect of consolidation adjustments*** | **12,512** | **2,603** |
| ***As per consolidated financial statements*** | **148,352** | **1,028** |

## Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 28 April 2011, the Company has renewed a stock buy-back authorization which stood as follows at 30 June 2011:

**Treasury shares**

| *no of Shares* | *Average book value* | *Amount* |
|---|---|---|
| **432,234** | **3.7347** | **1,614,284.94** |

The number of treasury shares in portfolio is the same as at 31 December 2010, as no purchases or sales were made during the first half of 2011.

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas of ultimate parent companies, nor has it owned or traded in such shares or quotas during the period, so there are no disclosures to be made in accordance with article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

## Atypical and/or unusual transactions

As required by CONSOB Communication DEM/6064293 of 28 July 2006, we declare that there were no atypical and/or unusual transactions, as defined in the explanatory notes, during the first half of 2011.

## Significant subsequent events

No significant events have taken place in the period subsequent to the end of half year regarding the Group activity.

## Outlook for Group operations

Given that there is still a climate of strong volatility in the economy, associated with political and social tensions, it is again very hard to make forecasts about how our sector is likely to evolve in the future. For the next few months it is reasonable to assume even higher costs for production factors, such as energy and raw materials which could hit profit margins.

As we have said on various occasions, in this context we are confident that the efforts we have made to innovate our product, to develop sales in areas with better growth prospects and to rationalise fixed costs will turn out to be a valid strategy to soften the impact of the current situation and to create new growth opportunities.

## Report on Corporate Governance and the Ownership Structure

In compliance with the disclosure requirements of Borsa Italiana Spa and Consob, Panariagroup Industrie Ceramiche Spa has prepared a "Report on Corporate Governance and the Ownership Structure", which can be consulted on its website www.panariagroup.com in the section entitled Company Documents (as required by art. 123-bis of Decree 58 of 24 February 1998).

## Risk management

In compliance with information requirements for listed companies, Law 262/2005 amended the Issuer Regulations by introducing a requirement for directors of such companies to identify, evaluate and manage risks relating to their business activities. The main types of risk that have been identified are as follows:

### *GENERAL ECONOMIC RISK*

The financial markets became especially volatile during 2011, with serious consequences both for numerous financial institutions and, more generally, for the economy as a whole. The precarious state of market conditions has been accentuated by a severe and generalised credit squeeze for both consumers and companies. This liquidity shortage is having negative repercussions on the industrial development of many business sectors, ours included. Should this situation of weakness and uncertainty become protracted, the activities, strategies and prospects for our Group could be adversely affected, with an impact on the statement of financial position, income statement and cash flows of the Group.

### *CREDIT AND LIQUIDITY RISK*

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

### *RISK OF DEPENDENCE ON KEY PERSONNEL*

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

***MARKET RISK***

***Competition risk:***

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian firms, are producers in emerging markets, who are particularly competitive price-wise and target the lower end of the market. Our Group believes that its positioning in the high-end luxury market segment, which is difficult for low-cost producers to enter, the renown of its trademarks, the wide range of product lines offered and the particular care and attention given to design, all represent competitive advantages over the products offered by such competitors. However, the possibility that increased competition may negatively impact the Group's economic and financial results in the medium to long term cannot be excluded.

***Raw material price risk:***

The raw materials and types of energy used in the production of ceramics for floor and wall coverings accounted for more than 25% of the value of production in both 2010 and 2011. An increase in prices, which at present  looks quite likely, could therefore have a negative impact on the Group's results in the short term. However, management believes that there are good reasons to increase price lists.

## Environmental protection, personnel costs and sector regulations

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain substances, such as lead and fluoride, particularly with regard to the treatment of such materials, emissions control and waste disposal. The Group keenly monitors environmental and personnel risks, and any situations arising in connection with operations are treated in compliance with the regulations.

With regards to its personnel, Panariagroup protects the health and safety of its employees in compliance with current regulations governing health and safety in the workplace. The number of employees at 30 June 2011 comes to 1,653, ten less than the 2010 average number.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

## CONSOB resolution 11971 of 14 May 1999

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

**- ART. 79 -**

**TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 30/6/2011**

| Name | Investment held in | Number of shares held at the end of prior year | Number of shares purchased in 2011 | Number of shares sold in 2011 | Number of shares held at 30/6/2011 | Type of holding | Type of ownership |
|---|---|---|---|---|---|---|---|
| Mussini Giuliano | Panariagroup | 314,438 | 27,115 | | 341,553 | Direct | Property |
| | | 4,400 | | | 4,400 | Spouse | Property |
| Mussini Giovanna | Panariagroup | 95,482 | | | 95,482 | Direct | Property |
| Pini Giuliano | Panariagroup | 38,468 | | | 38,468 | Direct | Property |
| | | 2,880 | | | 2,880 | Spouse | Property |
| Mussini Emilio | Panariagroup | 89,436 | | | 89,436 | Direct | Property |
| | | 3,080 | | | 3,080 | Spouse | Property |
| Mussini Giuseppe | Panariagroup | 56,400 | | | 56,400 | Direct | Property |
| | | 30,400 | | | 30,400 | Spouse | Property |
| Mussini Andrea | Panariagroup | 301,559 | | | 301,559 | Direct | Property |
| Mussini Marco | Panariagroup | 22,510 | | | 22,510 | Direct | Property |
| | | 9,340 | | | 9,340 | Spouse | Property |
| Mussini Paolo | Panariagroup | 30,000 | | | 30,000 | Direct | Property |
| Iori Alessandro | Panariagroup | 440 | | | 440 | Direct | Property |
| | | 4,200 | | | 4,200 | Spouse | Property |
| Palandri Enrico | Panariagroup | | | | - | Direct | Property |
| Onofri Paolo | Panariagroup | | | | - | Direct | Property |
| Ascari Pier Giovanni | Panariagroup | | | | - | Direct | Property |
| Premoli Trovati Stefano | Panariagroup | | | | - | Direct | Property |
| Pincelli Vittorio | Panariagroup | | | | - | Direct | Property |

ATTACHMENTS

- Reconciliation between the reclassified Statement of financial position and the IFRS-format Statement of financial position at 30/06/2011
- Reconciliation between the reclassified Statement of financial position and the IFRS-format Statement of financial position at 31/12/2010
- Reconciliation between the Summary of Cash Flows and the IFRS-format Cash Flow Statement

**The Chairman**

Sassuolo, 5 August 2011 ***Emilio Mussini***

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

## Reconciliation IFRS Statement of financial position / Reclassified Statement of financial position contained in Directors' Report figures at 30/06/2011

### STATEMENT OF FINANCIAL POSITION - IFRS

| ATTIVO | 30/06/2011 | RIF |
|---|---|---|
| CURRENT ASSETS | 245,486 | |
| Inventories | 135,268 | (A) |
| Trade receivables | 97,436 | (B) |
| Due from tax authorities | 4,270 | (C) |
| Other current assets | 3,434 | (D) |
| Cash and cash equivalents | 5,078 | (E) |
| NON-CURRENT ASSETS | 112,860 | |
| Goodwill | 12,789 | (F) |
| Intangible assets | 2,735 | (G) |
| Property, plant and equipment | 87,696 | (H) |
| Financial assets | 9,377 | (I) |
| Deferred tax assets | - | |
| Other non-current assets | 263 | (L) |
| TOTAL ASSETS | 358,346 | |

| LIABILITIES AND EQUITY | 30/06/2011 | RIF |
|---|---|---|
| CURRENT LIABILITIES | 150,341 | |
| Due to banks and other sources of finance | 50,589 | (M) |
| Trade payables | 64,258 | (N) |
| Due to tax authorities | 8,129 | (O) |
| Other current liabilities | 27,365 | (P) |
| NON-CURRENT LIABILITIES | 59,653 | |
| Employee severance indemnities | 6,332 | (Q) |
| Deferred tax liabilities | 1,864 | (R) |
| Provisions for risks and charges | 3,718 | (S) |
| Due to banks and other sources of finance | 47,201 | (T) |
| Other non-current liabilities | 538 | (U) |
| TOTAL LIABILITIES | 209,994 | |
| EQUITY | 148,352 | |
| Share capital | 22,678 | (V) |
| Reserves | 124,646 | (W) |
| Net profit for the period | 1,028 | (X) |
| TOTAL LIABILITIES AND EQUITY | 358,346 | |

### RECLASSIFIED STATEMENT OF FINANCIAL POSITION

| | 30/6/2011 | RIF |
|---|---|---|
| Inventories | 135,268 | (A) |
| Trade receivables | 97,436 | (B) |
| Other current assets | 7,119 | (C)+(D)-(*) |
| CURRENT ASSETS | 239,823 | |
| Trade payables | (64,258) | (N) |
| Other current liabilities | (35,494) | (O) + (P) |
| CURRENT LIABILITIES | (99,752) | |
| NET WORKING CAPITAL | 140,071 | |
| Goodwill | 12,789 | (F) |
| Intangible assets | 2,735 | (G) |
| Property, plant and equipment | 87,696 | (H) |
| Equity investments and other financial assets | 5 | (I) - (**) |
| FIXED ASSETS | 103,225 | |
| Receivables due beyond 12 months | 263 | (L) |
| Employee severance indemnities | (6,332) | (Q) |
| Provisions for risks and charges and deferred taxation | (5,582) | (R)+(S) |
| Other liabilities due beyond 12 months | (538) | (U) |
| ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS | (12,189) | |
| NET CAPITAL EMPLOYED | 231,107 | |
| Short-term financial assets | (5,078) | (E) |
| Short-term financial indebtedness | 50,004 | (M) - (*) |
| NET SHORT-TERM FINANCIAL INDEBTEDNESS | 44,926 | |
| Long-term financial indebtedness | 37,829 | (T) - (**) |
| NET LONG-TERM FINANCIAL INDEBTEDNESS | 37,829 | |
| NET FINANCIAL POSITION | 82,755 | |
| Group interest in equity | 148,352 | (V)+(W)+(X) |
| EQUITY | 148,352 | |
| TOTAL SOURCES | 231,107 | |

(*) CURRENT PORTION OF IRB **585**
Classified under current assets in the IFRS balance sheet
Included in short-term financial indebtedness in the reclassified balance sheet

(**) NON-CURRENT PORTION OF IRB **9,372**
Classified under financial assets in the IFRS balance sheet
Included in long-term financial indebtedness in the reclassified balance sheet

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

## Reconciliation IFRS Statement of financial position / Reclassified Statement of financial position contained in Directors' Report
## figures at 31/12/2010

### STATEMENT OF FINANCIAL POSITION - IFRS

| ASSETS | 31/12/2010 | REF |
|---|---|---|
| **CURRENT ASSETS** | **229,646** | |
| Inventories | 134,943 | (A) |
| Trade receivables | 83,647 | (B) |
| Due from tax authorities | 5,717 | (C) |
| Other current assets | 3,011 | (D) |
| Cash and cash equivalents | 2,328 | (E) |
| **NON-CURRENT ASSETS** | **117,245** | |
| Goodwill | 12,789 | (F) |
| Intangible assets | 3,187 | (G) |
| Property, plant and equipment | 90,218 | (H) |
| Financial assets | 10,773 | (I) |
| Deferred tax assets | - | |
| Other non-current assets | 278 | (L) |
| **TOTAL ASSETS** | **346,891** | |

| LIABILITIES AND EQUITY | 31/12/2010 | REF |
|---|---|---|
| **CURRENT LIABILITIES** | **124,915** | |
| Due to banks and other sources of finance | 37,823 | (M) |
| Trade payables | 59,947 | (N) |
| Due to tax authorities | 3,310 | (O) |
| Other current liabilities | 23,835 | (P) |
| **NON-CURRENT LIABILITIES** | **71,803** | |
| Employee severance indemnities | 6,440 | (Q) |
| Deferred tax liabilities | 2,438 | (R) |
| Provisions for risks and charges | 7,856 | (S) |
| Due to banks and other sources of finance | 54,509 | (T) |
| Other non-current liabilities | 560 | (U) |
| **TOTAL LIABILITIES** | **196,718** | |
| **EQUITY** | **150,173** | |
| Share capital | 22,678 | (V) |
| Reserves | 126,051 | (W) |
| Net result for the year | 1,444 | (X) |
| **TOTAL LIABILITIES AND EQUITY** | **346,891** | |

### RECLASSIFIED STATEMENT OF FINANCIAL POSITION

| | 31/12/2010 | REF |
|---|---|---|
| Inventories | 134,943 | (A) |
| Trade receivables | 83,647 | (B) |
| Other current assets | 8,095 | (C)+(D)-(*) |
| **CURRENT ASSETS** | **226,685** | |
| Trade payables | (59,947) | (N) |
| Other current liabilities | (27,145) | (O) + (P) |
| **CURRENT LIABILITIES** | **(87,092)** | |
| **NET WORKING CAPITAL** | **139,593** | |
| Goodwill | 12,789 | (F) |
| Intangible assets | 3,187 | (G) |
| Property, plant and equipment | 90,218 | (H) |
| Equity investments and other financial assets | 4 | (I)-(**) |
| **FIXED ASSETS** | **106,198** | |
| Receivables due beyond 12 months | 278 | (L) |
| Employee severance indemnities | (6,440) | (Q) |
| Provisions for risks and charges and deferred taxation | (10,294) | (R)+(S) |
| Other liabilities due beyond 12 months | (560) | (U) |
| **ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS** | **(17,016)** | |
| **NET CAPITAL EMPLOYED** | **228,775** | |
| Short-term financial assets | (2,328) | (E) |
| Short-term financial indebtedness | 37,190 | (M) - (*) |
| **NET SHORT-TERM FINANCIAL INDEBTEDNESS** | **34,862** | |
| Long-term financial indebtedness | 43,740 | (T) - (**) |
| **NET LONG-TERM FINANCIAL INDEBTEDNESS** | **43,740** | |
| **NET FINANCIAL POSITION** | **78,602** | |
| Group interest in equity | 150,173 | (V)+(W)+(X) |
| **EQUITY** | **150,173** | |
| **TOTAL SOURCES** | **228,775** | |

(*) CURRENT PORTION OF IRB **633**
Classified under current assets in the IFRS balance sheet
Included in short-term financial indebtedness in the reclassified balance sheet

(**) NON-CURRENT PORTION OF IRB **10,769**
Classified under financial assets in the IFRS balance sheet
Included in long-term financial indebtedness in the reclassified balance sheet

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

***Note:***

*The summary of cash flows presented in the directors' report measures the change in total net financial indebtedness, while the IFRS-format cash flow statement measures the change in short-term net financial indebtedness.*

| | | 30/06/2011 | |
|---|---|---|---|
| | Short-term securities | (585) | |
| A | Cash and cash equivalents | (5,078) | |
| | **Short-term financial assets** | **(5,663)** | |
| | Long-term securities | (9,372) | |
| | **Long-term financial assets** | **(9,372)** | |
| B | Due to banks | 35,966 | |
| | Current portion of long-term loans | 14,025 | |
| | Leases | 598 | |
| | **Short-term financial indebtedness** | **50,589** | |
| | Non-current portion of long-term loans | 37,827 | |
| | Leases | 9,374 | |
| | **Long-term financial indebtedness** | **47,201** | |
| C | **Net indebtedness** | **82,755** | |
| | | | |
| | **Net short-term financial indebtedness** | **30,888** | **= A + B** |
| | (as reported in IFRS cash flow statement) | | |
| | | | |
| | **Total net financial position** | **82,755** | **= C** |
| | (as reported in summary of cash flows contained in the Directors' Report) | | |

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

# PANARIAGROUP

## CONSOLIDATED FINANCIAL STATEMENTS

### CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

| *(in thousand of euro )* | 30/06/2011 | |
|---|---|---|
| **A - OPERATIONS** | | |
| Net profit for the period | 1,028 | A |
| Depreciation and amortisation | 8,250 | B |
| Deferred tax liabilities (assets) | (574) | C |
| Net change in provisions | 710 | D |
| *Cash flow (absorption) of operations prior to changes in working capital* | *9,414* | |
| (Increase)/decrease in trade receivables | (14,447) | |
| (Increase)/decrease in inventories | (325) | |
| Increase/(decrease) in trade payables | 4,311 | |
| Net change in other assets/liabilities | 5,020 | |
| *Cash flow (absorption) from operations due to changes in working capital* | *(5,441)* | F |
| **Total (A) Cash flow from operations** | **3,973** | |
| **B - INVESTMENT ACTIVITY** | | |
| Net investment in property, plant and equipment and intangible assets | (6,479) | H |
| Net investment in financial assets | (1) | J |
| Exchange difference on property, plant and equipment and intangible assets | 1,203 | K |
| Business acquisition, gross of short-term net debt of the business acquired | - | L |
| **Total (B) Cash flow (absorption) from investment activity** | **(5,277)** | |
| **C - FINANCING ACTIVITY** | | |
| Increase in capital | - | |
| Distribution of dividends | - | G |
| Other changes in equity | - | |
| (Purchase) Sale of treasury shares | - | M |
| Net change in loans | (7,132) | |
| **Total (C) Cash flow (absorption) from financing activities** | **(7,132)** | |
| **Opening net cash (indebtedness)** | **(19,603)** | |
| Change in the translation reserve | **(2,849)** | N |
| Net change in short-term net cash (indebtedness) (A+B+C) | **(8,436)** | |
| **Closing net cash (indebtedness)** | **(30,888)** | (X) |

**Summary of cash flows**
*(in thousands of Euro)*

| | 30/06/2011 | |
|---|---|---|
| **Financial position - opening balance** | **(78,602)** | |
| Net profit for the period | 1,028 | A |
| Depreciation and amortisation | 8,250 | B |
| Net change in other provisions | 136 | C+D |
| **Self-financing** | **9,414** | |
| Change in net working capital | (5,441) | F |
| Dividends | 0 | G |
| Net investments | (6,480) | H |
| Effect of acquisitions | 0 | L |
| Other changes | (1,646) | M + N + K + J |
| **Financial position - closing balance** | **(82,755)** | (Z) |

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

# PANARIAGROUP
# CONSOLIDATED FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

| rif | ASSETS | 30/06/2011 | 31/12/2010 | 30/06/2010 |
|---|---|---|---|---|
| | **CURRENT ASSETS** | **245,486** | **229,646** | **246,277** |
| 1.a | Inventories | 135,268 | 134,943 | 134,460 |
| 1.b | Trade Receivables | 97,436 | 83,647 | 101,296 |
| 1.c | Due from tax authorities | 4,270 | 5,717 | 1,892 |
| 1.d | Other current assets | 3,434 | 3,011 | 4,240 |
| 1.e | Cash and cash equivalents | 5,078 | 2,328 | 4,389 |
| | **NON-CURRENT ASSETS** | **112,860** | **117,245** | **121,626** |
| 2.a | Goodwill | 12,789 | 12,789 | 12,789 |
| 2.b | Intangible assets | 2,735 | 3,187 | 3,428 |
| 2.c | Property, plant and equipment | 87,696 | 90,218 | 93,373 |
| 2.d | Financial assets | 9,377 | 10,773 | 11,739 |
| 2.e | Deferred tax assets | 0 | 0 | 0 |
| 2.f | Other non-current assets | 263 | 278 | 297 |
| | **TOTAL ASSETS** | **358,346** | **346,891** | **367,903** |

| | LIABILITIES | 30/06/2011 | 31/12/2010 | 30/06/2010 |
|---|---|---|---|---|
| | **CURRENT LIABILITIES** | **150,341** | **124,915** | **137,273** |
| 3.a | Due to banks and other sources of finance | 50,589 | 37,823 | 43,300 |
| 3.b | Trade payables | 64,258 | 59,947 | 63,802 |
| 3.c | Due to tax authorities | 8,129 | 3,310 | 2,572 |
| 3.d | Other current liabilities | 27,365 | 23,835 | 27,599 |
| | **NON-CURRENT LIABILITIES** | **59,653** | **71,803** | **75,792** |
| 4.a | Employee severance indemnities | 6,332 | 6,440 | 6,536 |
| 4.b. | Deferred tax liabilities | 1,864 | 2,438 | 3,203 |
| 4.c | Provisions for risks and charges | 3,718 | 7,856 | 7,832 |
| 4.d | Due to banks and other sources of finance | 47,201 | 54,509 | 57,573 |
| 4.e | Other non-current liabilities | 538 | 560 | 648 |
| | **TOTAL LIABILITIES** | **209,994** | **196,718** | **213,065** |
| 5 | **EQUITY** | **148,352** | **150,173** | **154,838** |
| | Share capital | 22,678 | 22,678 | 22,678 |
| | Reserves | 124,646 | 126,051 | 128,566 |
| | Net profit for the period | 1,028 | 1,444 | 3,594 |
| | **TOTAL LIABILITIES AND EQUITY** | **358,346** | **346,891** | **367,903** |

*(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)*

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

# PANARIAGROUP
# CONSOLIDATED FINANCIAL STATEMENTS

## INCOME STATEMENT - IFRS
(THOUSANDS OF EURO)

| rif | | 30/06/2011 | | 31/12/2010 | | 30/06/2010 | |
|---|---|---|---|---|---|---|---|
| 6.a | **REVENUES FROM SALES AND SERVICES** | **151,846** | **96.9%** | **285,179** | **97.5%** | **147,610** | **98.8%** |
| | Change in inventories of finished products | 2,147 | 1.4% | 3,111 | 1.1% | (198) | -0.1% |
| 6.b | Other revenues | 2,739 | 1.7% | 4,210 | 1.4% | 1,994 | 1.3% |
| | **VALUE OF PRODUCTION** | **156,732** | **100.0%** | **292,500** | **100.0%** | **149,406** | **100.0%** |
| 7.a | Raw materials | (43,304) | -27.6% | (76,087) | -26.0% | (38,517) | -25.8% |
| 7.b | Services, leases and rentals | (61,457) | -39.2% | (115,761) | -39.6% | (58,581) | -39.2% |
| | *of which, related party transactions* | *(2,512)* | *-1.6%* | *(5,096)* | *-1.7%* | *(2,488)* | *-1.7%* |
| 7.c | Personnel costs | (36,260) | -23.1% | (69,863) | -23.9% | (35,568) | -23.8% |
| | Change in inventories of raw materials | 77 | 0.0% | 405 | 0.1% | 346 | 0.2% |
| 7.d | Other operating expenses | (1,601) | -1.0% | (2,941) | -1.0% | (1,451) | -1.0% |
| | **PRODUCTION COSTS** | **(142,545)** | **-90.9%** | **(264,247)** | **-90.3%** | **(133,771)** | **-89.5%** |
| | **GROSS OPERATING PROFIT** | **14,187** | **9.1%** | **28,253** | **9.7%** | **15,635** | **10.5%** |
| 8.a | Amortisation and depreciation | (8,250) | -5.3% | (17,402) | -5.9% | (8,481) | -5.7% |
| 8.b | Provisions and writedowns | (992) | -0.6% | (4,371) | -1.5% | (1,536) | -1.0% |
| | **NET OPERATING PROFIT** | **4,945** | **3.2%** | **6,480** | **2.2%** | **5,618** | **3.8%** |
| 9.a | Financial income (expense) | (2,087) | -1.3% | (2,058) | -0.7% | 782 | 0.5% |
| | **PRE-TAX PROFIT** | **2,858** | **1.8%** | **4,422** | **1.5%** | **6,400** | **4.3%** |
| 10.a | Income taxes | (1,830) | -1.2% | (2,978) | -1.0% | (2,806) | -1.9% |
| | **NET PROFIT FOR THE PERIOD** | **1,028** | **0.7%** | **1,444** | **0.5%** | **3,594** | **2.4%** |
| | **BASIC AND DILUTED EARNING PER SHARE** | **0.02** | | **0.03** | | **0.08** | |

The percentages shown in the schedule refer to the proportion of value of production.

***(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)***

PANARIAGROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

| | 30/06/2011 | 31/12/2010 | 30/06/2010 |
|---|---|---|---|
| **NET PROFIT (LOSS) FOR THE PERIOD** | **1,028** | **1,444** | **3,594** |
| **OTHER COMPONENTS OF COMPREHENSIVE INCOME** | | | |
| Exchange rate differences from foreign operations | (2,849) | 2,215 | 4,730 |
| **COMPREHENSIVE INCOME FOR THE PERIOD** | **(1,821)** | **(5,623)** | **8,324** |

*(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)*

## PANARIAGROUP
## CONSOLIDATED FINANCIAL STATEMENTS
### STATEMENT OF CASH FLOWS - IFRS
(THOUSANDS OF EURO)

| | 30 June 2011 | 30 June 2010 | 31 December 2010 |
|---|---|---|---|
| **A - OPERATIONS** | | | |
| Net Result for the period | 1,028 | 3,594 | 1,444 |
| Amortisation, depreciation and impairments | 8,250 | 8,481 | 17,402 |
| Deferred tax liabilities (assets) | (574) | 285 | (480) |
| Net change in provisions | 710 | 1,255 | 3,828 |
| *Cash flow (absorption) from operations prior to changes in working capital* | *9,414* | *13,615* | *22,194* |
| (Increase)/Decrease in trade receivables | (14,447) | (14,550) | 1,548 |
| (Increase)/Decrease in inventories | (325) | (4,714) | (6,291) |
| (Increase)/Decrease in trade payables | 4,311 | 6,698 | 2,843 |
| Net change in other current assets/liabilities | 5,020 | 3,276 | (2,471) |
| *Cash flow (absorption) from operations due to changes in working capital* | *(5,441)* | *(9,290)* | *(4,371)* |
| **TOTAL (A) CASH FLOW FROM OPERATIONS** | **3,973** | **4,325** | **17,823** |
| **B - INVESTMENT ACTIVITY** | | | |
| Net investment in tangible and intangible assets | (6,479) | (3,695) | (10,607) |
| Net investment in financial assets | (1) | - | - |
| Exchange difference on tangible and intangible assets | 1,203 | (2,639) | (1,252) |
| **TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY** | **(5,277)** | **(6,334)** | **(11,859)** |
| **C - FINANCING ACTIVITY** | | | |
| Increase in capital | - | - | - |
| Distribution of dividends | - | - | - |
| Other changes in equity | - | - | - |
| (Purchase) Sale of treasury shares | - | - | - |
| Net change in loans | (7,132) | (4,823) | (4,505) |
| **TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES** | **(7,132)** | **(4,823)** | **(4,505)** |
| **Opening net cash (indebtedness)** | **(19,603)** | **(23,277)** | **(23,277)** |
| Change in the translation reserve | **(2,849)** | **4,730** | **2,215** |
| Net change in net short-term cash (indebtness) (A+B+C) | **(8,436)** | **(6,832)** | **1,459** |
| **Closing net cash (indebtness)** | **(30,888)** | **(25,379)** | **(19,603)** |
| Supplementary information | | | |
| Interest paid | 931 | 844 | 1,662 |
| Income taxes paid | 1,556 | 592 | 3,605 |

The net cash (indebtness) position includes cash and cash equivalents, incluiding bank deposits and overdrafts, but excluding the current portion of long-term loans and leases.

***(Translation from the Original issued in Italy, from the Italian into English language, solely for the convenience of international readers)***