Panariagroup Industrie Ceramiche

DIRECTORS' INTERIM REPORT

The condensed half-yearly consolidated financial statements at 30 June 2010 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).

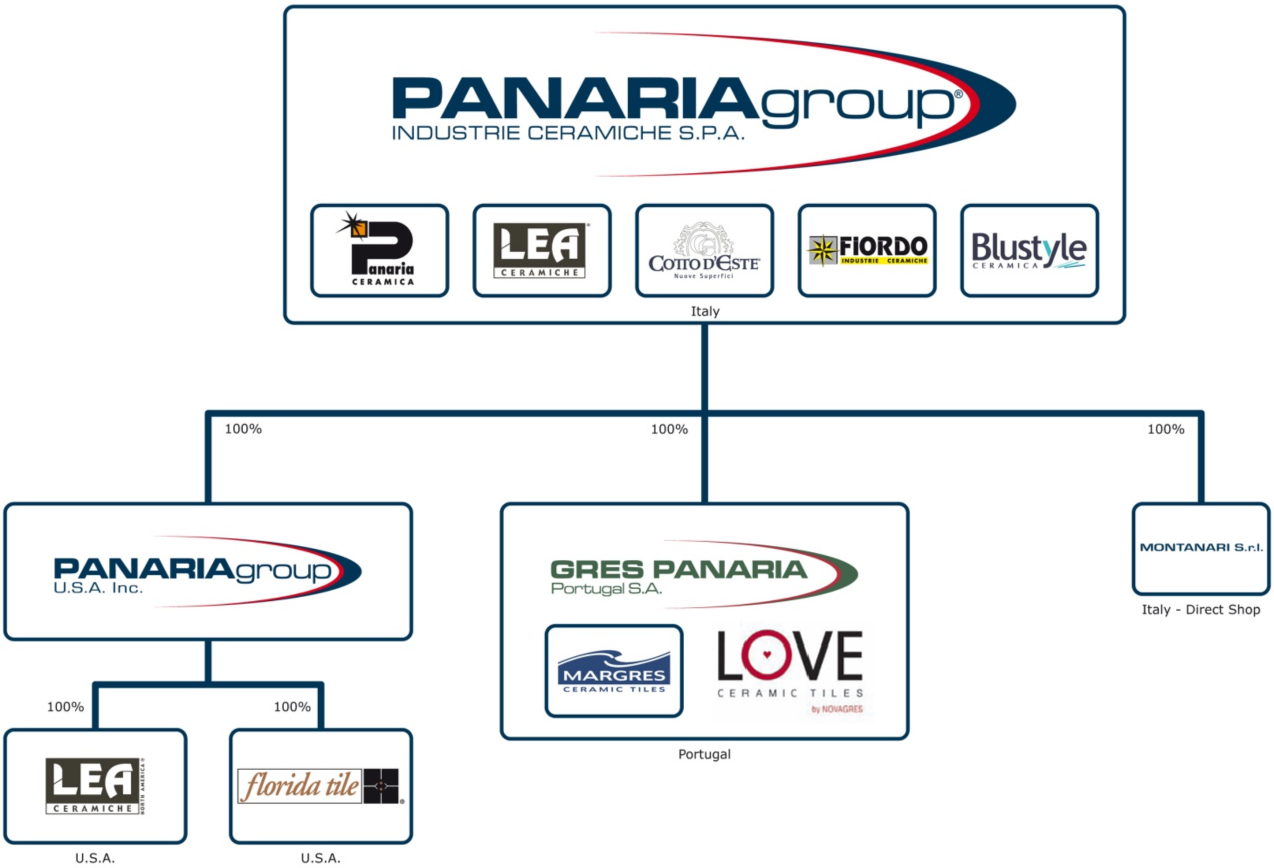
In particular, this condensed half-yearly consolidated report has been drawn up in accordance with IAS 34 "Interim Financial Reporting", which entails a significantly lower level of disclosure compared with that required for annual financial statements, providing that a complete set of IFRS-compliant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

It should be pointed out that the directors' report does not include any alternative performance measures and so it has not been necessary to provide any of the information required 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 2010 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 and deluxe market segment and mainly sell porcelain grès 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 2 separate brand names, Margres and Love Ceramic Tiles, both directed at the main European markets.

Panariagroup USA Inc., based in Delaware, USA, share capital of USD 55,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.
This is a holding company for the US operations. It owns 100% interests in Florida Tile Inc. and Lea North America LLC.

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 Srl, 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.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Directors' Interim Report on the 2010 Condensed Half-yearly Consolidated Financial Statements

Results and significant events in the first half of 2010

Results

Shareholders,

During the first half of 2010, there were the first signs of a recovery in the world economic cycle, a recovery featuring moderate rates of growth that differ considerably from one geographical area and country to another.
The recovery is looking reasonably strong in most Asian countries and quite good in North America; there are still hesitations in Europe with particularly critical situations in certain countries (Spain, Greece and Portugal).
The main reason why the principal western economies are struggling to recover is the weakness in domestic demand: consumer spending is being held back by the fall in employment and disposable income, while capital investment is receiving insufficient stimulus given that there is excess production capacity, ongoing credit difficulties and uncertainty regarding the expected return on new initiatives.
The economic policies applied to date have helped to mitigate the impact of the crisis, generally speaking. However, there is now a rising need to revoke the exceptional monetary and fiscal measures adopted over the last year and a half. This prospect has been made even more pressing in Europe by the emergence of the risk that the public finances in certain Euro-zone countries are becoming unsustainable, starting with Greece, a situation that is also reflected in the weakening of the euro. The contrast in the current rates of growth between emerging nations and the more industrialised economies is even more marked in the construction industry. In fact, most of the countries in the former category have seen a fairly brilliant growth trend, slightly attenuated during the most acute phases of the world recession; whereas industrialised nations continue to suffer from extreme weakness in this sector. Even in North America, where promising signs of a turnaround were visible in the second half of last year, rates of growth have remained well below expectations more recently.
In the first half of 2010, the Group's results have been conditioned by this general scenario with a decline in revenues (-1.14%) entirely imputable to the first three months of the year.

Despite this, thanks to the steps taken to hold down operating costs, the results have shown a distinct improvement compared with the same period last year.

So even though the general economic context has been difficult, the results that we have achieved are a reflection of our strong and well-balanced corporate structure that found a strategy for recovery in Group profitability:

- Consolidated revenues from sales amounted to Euro 147.6 million, a decrease of 1.14% on the same period in 2009.
- Gross operating profit comes to Euro 15.6 million (Euro 9.9 million at 30/06/2009), while net operating profit is of Euro 5.6 million (a loss of Euro 0.6 million at 30/06/2009).
- Consolidated net profit amounts to Euro 3.6 million (at 30/06/2009 the consolidated loss was of Euro 4.4 million).

The recovery in operating margins is principally due to the substantial savings achieved in industrial and marketing costs and to a reorganisation of the Group in line with the current market situation. In particular, the American structure of Florida Tile concluded a series of important rationalisations during 2009, the benefits of which were felt to the full in 2010.

Significant events

During the first half of 2010, Panariagroup has been continuing its successful production at the Fiorano plant of the innovative line of thin (3mm) and large format (3m x 1m) ceramic plates. The plant, which was inaugurated during the last quarter of 2009, is considered strategic for the Group given the considerable success of this type of product.

This innovative product is continuing to achieve rapidly rising volumes of sales in 2010 with good profit margins.

The market is very sensitive to this product, thanks to its characteristics of low environmental impact, ideal for refurbishments and for the facades of buildings.

Review of the Group's results at 30 June 2010

Income statement - Comparison between 30 June 2010 – 30 June 2009
(in thousands of euro)

YTD	June 30, 2010	%	June 30, 2009	%	var.
Revenues from sales and services	**147,610**	**98.80%**	**149,312**	**106.63%**	**(1,702)**
Changes in inventories of finished products	(198)	-0.13%	(12,246)	-8.75%	12,048
Other revenues	1,994	1.33%	2,957	2.11%	(963)
Value of Production	**149,406**	**100.00%**	**140,023**	**100.00%**	**9,383**
Raw, ancillary and consumable materials	(38,517)	-25.78%	(37,228)	-26.59%	(1,289)
Services, leases and rentals	(58,581)	-39.21%	(55,817)	-39.86%	(2,764)
Personnel costs	(35,568)	-23.81%	(35,260)	-25.18%	(308)
Changes in inventories of raw materials	346	0.23%	(247)	-0.18%	593
Other operating expenses	(1,451)	-0.97%	(1,544)	-1.10%	93
Cost of production	**(133,771)**	**-89.54%**	**(130,096)**	**-92.91%**	**(3,675)**
Gross operating profit	**15,635**	**10.46%**	**9,927**	**7.09%**	**5,708**
D&A expenses	(8,481)	-5.68%	(8,309)	-5.93%	(172)
Provisions and impairments	(1,536)	-1.03%	(1,381)	-0.99%	(155)
Non-recurring Provisions	0	0.00%	(788)	-0.56%	788
Net operating profit	**5,618**	**3.76%**	**(551)**	**-0.39%**	**6,169**
Financial income and expense	782	0.52%	(2,759)	-1.97%	3,541
Pre-tax profit	**6,400**	**4.28%**	**(3,310)**	**-2.36%**	**9,710**
Income taxes	(2,806)	-1.88%	(1,096)	-0.78%	(1,710)
Net profit for the period	**3,594**	**2.41%**	**(4,406)**	**-3.15%**	**8,000**
Cash Flow	**13,611**	**9.11%**	**6,072**	**4.34%**	**7,539**

The cash flow reported in this table has been calculated as net profit before depreciation, amortisation, provisions and writedowns.

Consolidated revenues

Revenues from sales have fallen by 1.14%, from Euro 149.3 million at 30 June 2009 to Euro 147.61 million at 30 June 2010 (- Euro 1.7 million).

Principal markets

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

Despite good recoveries in the second quarter of 2010, **European markets** continue to be those that are suffering the most from the crisis, especially in the western part where the decline in sales has been around Euro 4 million (-6.27%), while markets in Eastern Europe have been showing a growth of 26% (+0.8 million euro). Traditionally important countries for the Group that are now in difficulty include Belgium (-18.6%), Holland (-19.5%) and

Portugal (-7.3%), while the French and German markets are holding up. Germany posted an important recovery in the second quarter of 2010, achieving last year results. The European market's share of total net sales comes to around 42%.

The **Italian market** is acting in the same way as the main Western European markets: Sales fell by 5% (- 2.4 million euro) in the first six months of 2010.
The Italian market's share of total net sales comes to around 30%.

The stagnation of capital investment in the construction industry and the excess stock of houses on the market are the main reasons for the contraction in sales both in Italy and in the rest of Western Europe.

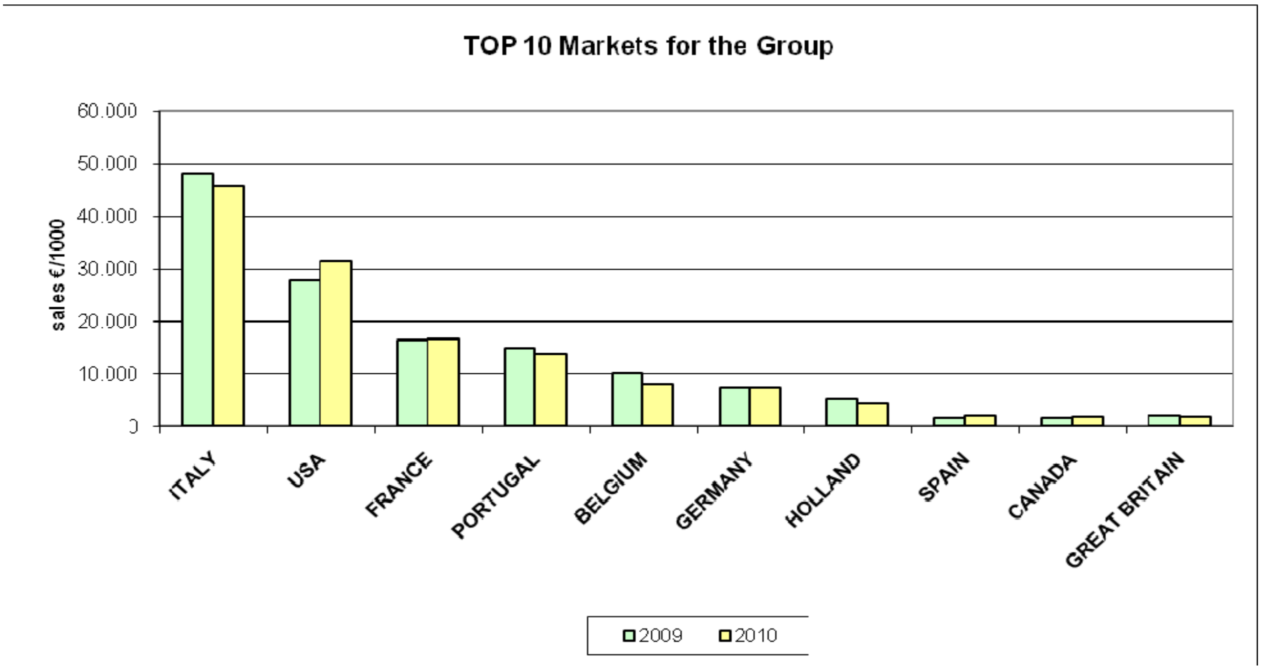
Bucking the trend is the **US market** which towards the end of 2009 was already showing interesting signs of recovery in the main economic indicators and, in the first semester 2010, achieved an important increase in sales of around 13% in dollar terms (+**4.6** million USD).
The US market's share of total net sales comes to around 21%.

On **overseas markets** (Asia and Oceania), which still represent a limited proportion of Group turnover, the first half of 2010 saw an increase compared with last year of around Euro 0.4 million (+5.3%).

The following table gives a breakdown of sales to the Group's principal markets:

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

rk	*Nation*	*June 30, 2010*	*June 30, 2009*	*var.*	*%*
1	ITALY	45,624	48,037	(2,413)	-5.0%
2	USA	31,341	27,713	3,628	13.1%
3	FRANCE	16,486	16,409	77	0.5%
4	PORTUGAL	13,717	14,799	(1,082)	-7.3%
5	BELGIUM	8,068	9,915	(1,847)	-18.6%
6	GERMANY	7,284	7,304	(20)	-0.3%
7	HOLLAND	4,269	5,300	(1,031)	-19.5%
8	SPAIN	2,119	1,557	562	36.1%
9	CANADA	1,881	1,583	298	18.8%
10	GREAT BRITAIN	1,855	2,086	(231)	-11.1%
	OTHERS	17,910	17,233	677	3.9%
	TOTAL	**150,554**	**151,936**	**(1,382)**	**-0.9%**



As regards sales by individual brands, it is worth highlighting the good growth in the Florida Tile brand (USA) and in the Love Tiles brand (Portugal), while the other brands all saw a slight reduction in their sales.

A highly varied distribution policy with many different brands and the multiplicity of countries that we export to, together with the internationalisation of production in recent years, has allowed us to recover profitability, combined with prudent management of credit risk.

Operating results

The **gross operating profit** of Euro 15.6 million accounts for 10.5% of the value of production (Euro 9.9 million or 7.1% at 30 June 2009), with a significant recovery of Euro 5.7 million.

The main factors behind this recovery in Group profitability are:

- The increase in production volumes compared with the first half of 2009 (+16.5%) has had a positive impact on the financial statements thanks to the reduction in product costs, especially fixed overheads;

- The reduction in energy prices (electricity and natural gas), which fell on average by 3% and 21%, respectively, compared with the first half of last year;
- The reduction in raw material prices, partly thanks to the fall in transport costs linked to the price of oil derivatives;
- A containment of marketing costs following an optimisation of promotional and merchandising investments;
- The savings that came from adjusting the organisational structure to the Group's current level of turnover, in particular, the optimisation of the structure, had put into effect through to a reduction in personnel in the areas worst hit by the decline in business (principally in the US at Florida Tile) and reconverting internal staff to do work that previously used to be outsourced.

The **net operating profit** comes to Euro 5.6 million (compared with a loss of Euro 0.6 million at 30 June 2009), with a rise of Euro 6.2 million.

Depreciation is substantially in line with the first half of 2009.

Thanks to the combined effect of falling interest rates, declining debt and the revaluation of the dollar compared with the end of 2009, the result of financial management is a good deal better than the previous year, even to the extent of turning in a positive balance of Euro 0.8 million.

The **pre-tax result** amounts to Euro 6.4 million (versus a loss of Euro 3.3 million at 30 June 2009), an improvement of Euro 9.7 million.

The estimated tax burden should come to Euro 2.8 million.

The consolidated **net profit** for the period comes to Euro 3.6 million, a rise of Euro 8 million compared with the consolidated net loss of Euro 4.4 million reported in the first half of 2009.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Review of the Statement of Financial Position

Summary of the Reclassified Consolidated Statement of Financial Position

(in thousands of euro)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 2010	March 31, 2010 *	December 31, 2009	June 30, 2009
Inventories	134,460	132,107	130,367	139,480
Accounts Receivable	101,296	92,780	87,478	103,070
Other current assets	5,443	6,841	6,699	5,975
CURRENT ASSETS	**241,199**	**231,728**	**224,544**	**248,525**
Accounts Payables	(63,802)	(58,658)	(57,104)	(56,837)
Other current liabilities	(30,171)	(28,298)	(28,265)	(32,509)
CURRENT LIABILITIES	**(93,973)**	**(86,956)**	**(85,369)**	**(89,346)**
NET WORKING CAPITAL	**147,226**	**144,772**	**139,175**	**159,179**
Goodwill	12,789	12,789	12,789	12,989
Intangible assets	3,428	3,383	3,376	3,783
Tangible assets	93,373	93,606	95,572	95,733
Equity Investments and other financial fixed assets	4	4	4	4
FIXED ASSETS	**109,594**	**109,782**	**111,741**	**112,509**
Receivables due after the following year	297	291	287	282
Provisions for termination benefits	(6,536)	(6,633)	(6,710)	(6,678)
Provisions for risks and charge and deferred taxes	(11,035)	(10,868)	(10,674)	(11,101)
Other payables due after the year	(648)	(576)	(524)	(1,712)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(17,922)**	**(17,786)**	**(17,621)**	**(19,209)**
NET CAPITAL EMPLOYED	**238,898**	**236,768**	**233,295**	**252,479**

Short term financial assets	(4,389)	(4,850)	(4,456)	(3,707)
Short term financial debt	42,611	41,254	38,179	54,461
NET SHORT TERM FINANCIAL DEBT	**38,222**	**36,404**	**33,723**	**50,754**
Mid-long term financial debt	45,838	52,111	53,058	54,233
NET FINANCIAL POSITION	**84,060**	**88,515**	**86,781**	**104,987**
Group Shareholders' Equity	154,838	148,253	146,514	147,492
SHAREHOLDERS' EQUITY	**154,838**	**148,253**	**146,514**	**147,492**
TOTAL SOURCES OF FUNDS	**238,898**	**236,768**	**233,295**	**252,479**

*Quarterly data are not audited

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

Net working capital

Seasonal trends affecting receivables and inventory have boosted net working capital compared with the end of the year.

If compared with the first half of 2009, working capital shows a distinct reduction (Euro - 11.9 million, or 7.5%). In particular, the ratio of trade receivables to net sales did not deteriorate, despite the difficult situation. As regards the level of inventory, there has been a slight increase compared to the beginning of the year caused exclusively by the higher valuation in euro of the US companies' stocks as a result of the dollar's appreciation. The objective of lowering inventory in relation to effective commercial requirements by the end of 2010 remains.

Fixed assets

Fixed assets have decreased by Euro 2.1 million since the start of the year.

This decrease was due to:

- net capital expenditure of 3.7 million euro: of this, Euro 2.2 million was spent in Italy, Euro 0.5 million in Portugal and Euro 1.0 million in the United States.
- the higher value of fixed assets of the US sub-consolidation expressed in euro because of the dollar's appreciation since the end of 2009, for Euro 2.7 million.
- depreciation and amortisation for the period of Euro 8.5 million.

Net financial position

Financial cash flow *(thousands euro)*	**June 30, 2010**	**December 31, 2009**	**June 30, 2009**
Net financial position (debt) - beginning	**(86,781)**	**(99,128)**	**(99,128)**
Net Result	3,594	(4,607)	(4,406)
D & A	8,481	17,339	8,309
Net Variation Provisions	1,540	2,473	1,650
Internal operating Cash flow	**13,615**	**15,205**	**5,553**
Change in net working capital	(9,290)	14,892	(2,698)
Dividend distribution	0	(1,348)	(1,348)
Net Investments	(3,695)	(15,918)	(7,326)
Other movements	2,091	(484)	(40)
Net financial position (debt) - final	**(84,060)**	**(86,781)**	**(104,987)**

There has been an improvement in the net financial position compared with the end of 2009, mainly related to the good operating results and the consequent improvement in cash flow, combined with a careful investment policy.

The improvement is even more marked if compared with the first half of 2009. In fact, in this period indebtedness shown a decrease of -20.9 million euro.

The Group continue to pursue the reduction in short-term indebtedness during the second half of 2010 as well, by containing costs and reducing stocks.

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 geographical area is provided in the earlier section on "Revenues".
- The breakdown of total assets by geographical location is shown below:

ASSETS	Italy	Europe	USA	Other	Total
CURRENT ASSETS	**140,896**	**54,094**	**45,004**	**6,283**	**246,277**
Inventories	83,091	21,823	29,546	-	134,460
Trade receivables	52,342	30,725	11,946	6,283	101,296
Due from tax authorities	1,742	145	5	-	1,892
Other current assets	2,354	201	1,685	-	4,240
Cash and cash equivalents	1,367	1,200	1,822	-	4,389
NON-CURRENT ASSETS	**43,900**	**47,068**	**30,658**	**-**	**121,626**
Goodwill	700	12,089	-	-	12,789
Intangible assets	1,337	231	1,860	-	3,428
Property, plant and equipment	41,698	34,748	16,927	-	93,373
Financial assets	-	-	11,739	-	11,739
Deferred tax assets	-	-	-	-	-
Other non-current assets	165	-	132	-	297
TOTAL ASSETS	**184,796**	**101,162**	**75,662**	**6,283**	**367,903**

	Italy	Europe	USA	Other	Total
Investments in 2010	**2,040**	**552**	**928**	**-**	**3,520**

Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continue in 2010 as before.
The constant 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 contents, which guarantee supremacy in the top-end and luxury segment of the ceramics market.
The new product lines and those due to be launched in 2010, especially those that will be presented at the 2010 edition of the CERSAIE Trade Fair as innovative line of thin (3mm) and large format (3m x 1m) ceramic plates.

Transactions with parent companies, affiliates and related parties

As regards the condensed half-yearly consolidated financial statements for 2010, related party transactions are explained in the notes.
Furthermore, in compliance with CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that the related party transactions described in the explanatory notes almost all relate to the lease of industrial facilities used by the Parent Company for the conduct of its business.

Reconciliation of the Parent Company's equity and net half-year results 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 with the corresponding consolidated amounts reported at 30 June 2010 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	**140,517**	**5,184**
a) Difference between the book value of equity investments and their value using the equity method	14,462	119
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(205)	3
c) Reversal of exchange losses (gains) on intercompany loan	0	(1,711)
d) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	64	(1)
Net effect of consolidation adjustments	**14,321**	**(1,590)**
As per consolidated financial statements	**154,838**	**3,594**

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 23 April 2010, the Company has renewed a stock buy-back programme which stood as follows at 30 June 2010:

Treasury shares

no of Shares	*Average book value*	*Amount*
432,234	**3.735**	**1,614,284.94**

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 2010.

Significant subsequent events

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

Outlook for Group operations

For next period there is still considerable uncertainty as to how the crisis will evolve, even if the signs in the second part of the first half that certain western markets had touched bottom and confirmation of growth in demand in Asia and North America tend to suggest a less negative scenario for the construction industry than the one seen in the first semester.
In this context, thanks to the positive results already obtained and those still expected, following the steps taken to improve efficiency and reduce costs, it is expected that operating results in the second half of the year, except for the worsening of economic scenario, will maintain results achieved thanks also to continuous attention to research and technological development.

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 the "*Report on Corporate Governance and the Ownership Structure*" which can be consulted on its website www.panariagroup.com in the section entitled Company Documents (as required by art. 123-bis of 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 and currency markets became especially volatile during 2010, with serious consequences both for numerous financial institutions and, more generally, for the economy as a whole. The significant and widespread deterioration in market conditions has been accentuated by a severe credit squeeze, both for consumers and for companies. This liquidity shortage will have 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 a resulting negative impact on the Statement fo 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 includes the information required by IFRS 7.

RISK OF DEPENDENCE ON KEY PERSONNEL

The Group's performance depends on, among other things, 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 risks:

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian producers, are: (i) Far Eastern producers, who are particularly competitive price-wise and target the lower end of the market; (ii) Spanish producers, some of whom are able to compete at the higher end of the market, with average prices that are lower than those of Italian companies, due to lower production costs. Our Group continues to believe that its positioning in the high-end luxury market segment, where it is difficult for low-cost producers to enter, the high visibility of its trademarks, the wide range of product lines offered and the particular care and attention we give to *design*, all represent competitive advantages over 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 used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2009 and 2010. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term. However, management believes that the possibility of revising price lists, given the Company's positioning in the high end luxury market which is less sensitive to price variations, should mitigate such effects in the medium term.

Environmental protection, personnel costs and regulations relating to the sector

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain 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.

In the first half of 2010 the Group employed an average of 1,661 people.

CONSOB resolution 11971 of 14 May 1999

In compliance with the provisions of this resolution, the following table reports the interests in Panariagroup and its subsidiaries held 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 the same directors, statutory auditors, general managers and key management personnel:

- ART. 79 -

TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT JUNE 30, 2010

Name	Investment held in	Number of shares held at the end of prior year	Number of shares purchased in first half of 2010	Number of shares sold in first half of 2010	Number of shares held at June 30, 2010	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	281,963	-	-	**281,963**	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	114,859	-	-	**114,859**	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 Statement of Financial Position at 30/06/2010
- Reconciliation between the Reclassified Statement of Financial Position and the IFRS Statement of Financial Position at 31/12/2009
- Reconciliation between the Summary of Cash Flows and the IFRS Cash Flow Statement

Chairman

Sassuolo, August 6, 2010

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 30/06/2010

STATEMENT OF FINANCIAL POSITION - IFRS

ATTIVO	June 30, 2010	RIF
CURRENT ASSETS	**246,277**	
Inventories	134,460	(A)
Trade receivables	101,296	(B)
Due from tax authorities	1,892	(C)
Other current assets	4,240	(D)
Cash and cash equivalents	4,389	(E)
NON-CURRENT ASSETS	**121,626**	
Goodwill	12,789	(F)
Intangible assets	3,428	(G)
Property, plant and equipment	93,373	(H)
Financial assets	11,739	(I)
Deferred tax assets	-	
Other non-current assets	297	(L)
TOTAL ASSETS	**367,903**	

LIABILITIES AND EQUITY	June 30, 2010	RIF
CURRENT LIABILITIES	**137,273**	
Due to banks and other sources of finance	43,300	(M)
Trade payables	63,802	(N)
Due to tax authorities	2,572	(O)
Other current liabilities	27,599	(P)
NON-CURRENT LIABILITIES	**75,792**	
Employee severance indemnities	6,536	(Q)
Deferred tax liabilities	3,203	(R)
Provisions for risks and charges	7,832	(S)
Due to banks and other sources of finance	57,573	(T)
Other non-current liabilities	648	(U)
TOTAL LIABILITIES	**213,065**	
EQUITY	**154,838**	
Share capital	22,678	(V)
Reserves	128,566	(W)
Net profit for the period	3,594	(X)
TOTAL LIABILITIES AND EQUITY	**367,903**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	June 30, 2010	RIF
Inventories	134,460	(A)
Trade receivables	101,296	(B)
Other current assets	5,443	(C)+(D)-(*)
CURRENT ASSETS	**241,199**	
Trade payables	(63,802)	(N)
Other current liabilities	(30,171)	(O) + (P)
CURRENT LIABILITIES	**(93,973)**	
NET WORKING CAPITAL	**147,226**	
Goodwill	12,789	(F)
Intangible assets	3,428	(G)
Property, plant and equipment	93,373	(H)
Equity investments and other financial assets	4	(I) - (**)
FIXED ASSETS	**109,594**	
Receivables due beyond 12 months	297	(L)
Employee severance indemnities	(6,536)	(Q)
Provisions for risks and charges and deferred taxation	(11,035)	(R)+(S)
Other liabilities due beyond 12 months	(648)	(U)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	**(17,922)**	
NET CAPITAL EMPLOYED	**238,898**	
Short-term financial assets	(4,389)	(E)
Short-term financial indebtedness	42,611	(M) - (*)
NET SHORT-TERM FINANCIAL INDEBTEDNESS	**38,222**	
Long-term financial indebtedness	45,838	(T) - (**)
NET LONG-TERM FINANCIAL INDEBTEDNESS	**45,838**	
NET FINANCIAL POSITION	**84,060**	
Group interest in equity	154,838	(V)+(W)+(X)
EQUITY	**154,838**	
TOTAL SOURCES	**238,898**	

(*) CURRENT PORTION OF IRB **689**
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 **11,735**
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 31/12/2009

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	December 31, 2009	REF
CURRENT ASSETS	**229,587**	
Inventories	130,367	(A)
Trade receivables	87,478	(B)
Due from tax authorities	3,629	(C)
Other current assets	3,657	(D)
Cash and cash equivalents	4,456	(E)
NON-CURRENT ASSETS	**122,604**	
Goodwill	12,789	(F)
Intangible assets	3,376	(G)
Property, plant and equipment	95,572	(H)
Financial assets	10,580	(I)
Deferred tax assets	-	
Other non-current assets	287	(L)
TOTAL ASSETS	**352,191**	

LIABILITIES AND EQUITY	December 31, 2009	REF
CURRENT LIABILITIES	**124,135**	
Due to banks and other sources of finance	38,766	(M)
Trade payables	57,104	(N)
Due to tax authorities	3,664	(O)
Other current liabilities	24,601	(P)
NON-CURRENT LIABILITIES	**81,542**	
Employee severance indemnities	6,710	(Q)
Deferred tax liabilities	2,918	(R)
Provisions for risks and charges	7,756	(S)
Due to banks and other sources of finance	63,634	(T)
Other non-current liabilities	524	(U)
TOTAL LIABILITIES	**205,677**	
EQUITY	**146,514**	
Share capital	22,678	(V)
Reserves	128,443	(W)
Net result for the period	(4,607)	(X)
TOTAL LIABILITIES AND EQUITY	**352,191**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	December 31, 2009	REF
Inventories	130,367	(A)
Trade receivables	87,478	(B)
Other current assets	6,699	(C)+(D)-(*)
CURRENT ASSETS	**224,544**	
Trade payables	(57,104)	(N)
Other current liabilities	(28,265)	(O) + (P)
CURRENT LIABILITIES	**(85,369)**	
NET WORKING CAPITAL	**139,175**	
Goodwill	12,789	(F)
Intangible assets	3,376	(G)
Property, plant and equipment	95,572	(H)
Equity investments and other financial assets	4	(I)-(**)
FIXED ASSETS	**111,741**	
Receivables due beyond 12 months	287	(L)
Employee severance indemnities	(6,710)	(Q)
Provisions for risks and charges and deferred taxation	(10,674)	(R)+(S)
Other liabilities due beyond 12 months	(524)	(U)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	**(17,621)**	
NET CAPITAL EMPLOYED	**233,295**	
Short-term financial assets	(4,456)	(E)
Short-term financial indebtedness	38,179	(M) - (*)
NET SHORT-TERM FINANCIAL INDEBTEDNESS	**33,723**	
Long-term financial indebtedness	53,058	(T) - (**)
NET LONG-TERM FINANCIAL INDEBTEDNESS	**53,058**	
NET FINANCIAL POSITION	**86,781**	
Group interest in equity	146,514	(V)+(W)+(X)
EQUITY	**146,514**	
TOTAL SOURCES	**233,295**	

(*) CURRENT PORTION OF IRB **587**
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 **10,576**
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.

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

(in thousand of euro)	June 30, 2010	
A - OPERATIONS		
Net profit for the year	3,594	**A**
Depreciation and amortisation	8,481	**B**
Deferred tax liabilities (assets)	285	**C**
Net change in provisions	1,255	**D**
Cash flow (absorption) of operations prior to changes in working capital	*13,615*	
(Increase)/decrease in trade receivables	(14,550)	
(Increase)/decrease in inventories	(4,714)	
Increase/(decrease) in trade payables	6,698	
Net change in other assets/liabilities	3,276	
Cash flow (absorption) from operations due to changes in working capital	*(9,290)*	**F**
Total (A) Cash flow from operations	**4,325**	
B - INVESTMENT ACTIVITY		
Net investment in property, plant and equipment and intangible assets	(3,695)	**H**
Net investment in financial assets	-	**J**
Exchange difference on property, plant and equipment and intangible assets	(2,639)	**K**
Business acquisition, gross of short-term net debt of the business acquired	-	**L**
Total (B) Cash flow (absorption) from investment activity	**(6,334)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	**G**
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	**M**
Net change in loans	(4,823)	
Total (C) Cash flow (absorption) from financing activities	**(4,823)**	
Opening net cash (indebtedness	**(23,277)**	
Change in the translation reserve	**4,730**	**N**
Net change in short-term net cash (indebtedness) (A+B+C)	**(6,832)**	
Closing net cash (indebtedness	**(25,379)**	**(X)**

Summary of cash flows
(in thousands of Euro)

	June 30, 2010	
Financial position - opening balance	**(86,781)**	
Net profit for the period	3,594	**A**
Depreciation and amortisation	8,481	**B**
Net change in other provisions	1,540	**C+D**
Self-financing	**13,615**	
Change in net working capital	(9,290)	**F**
Dividends	0	**G**
Net investments	(3,695)	**H**
Effect of acquisitions	0	**L**
Other changes	2,091	**M + N + K + J**
Financial position - closing balance	**(84,060)**	**(Z)**

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

BALANCE SHEET

(THOUSANDS OF EURO)

ASSETS	30/06/2010	31/12/2009	30/06/2009
CURRENT ASSETS	**246.277**	**229.587**	**252.831**
Inventories	134.460	130.367	139.480
Trade Receivables	101.296	87.478	103.070
Due from tax authorities	1.892	3.629	1.612
Other current assets	4.240	3.657	4.962
Cash and cash equivalents	4.389	4.456	3.707
NON-CURRENT ASSETS	**121.626**	**122.604**	**123.564**
Goodwill	12.789	12.789	12.989
Intangible assets	3.428	3.376	3.783
Property, plant and equipment	93.373	95.572	95.733
Financial assets	11.739	10.580	10.777
Deferred tax assets	0	0	0
Other non-current assets	297	287	282
TOTAL ASSETS	**367.903**	**352.191**	**376.395**

LIABILITIES	31/12/2009	31/12/2008	31/12/2008
CURRENT LIABILITIES	**137.273**	**124.135**	**144.406**
Due to banks and other sources of finance	43.300	38.766	55.060
Trade payables	63.802	57.104	56.837
Due to tax authorities	2.572	3.664	3.622
Other current liabilities	27.599	24.601	28.887
NON-CURRENT LIABILITIES	**75.792**	**81.542**	**84.497**
Employee severance indemnities	6.536	6.710	6.678
Deferred tax liabilities	3.203	2.918	3.224
Provisions for risks and charges	7.832	7.756	7.877
Due to banks and other sources of finance	57.573	63.634	65.006
Other non-current liabilities	648	524	1.712
TOTAL LIABILITIES	**213.065**	**205.677**	**228.903**
EQUITY	**154.838**	**146.514**	**147.492**
Share capital	22.678	22.678	22.678
Reserves	128.566	128.444	129.220
Net profit for the year	3.594	(4.608)	(4.406)
TOTAL LIABILITIES AND EQUITY	**367.903**	**352.191**	**376.395**

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS
(THOUSANDS OF EURO)

	30/6/2010		31/12/2009		30/6/2009	
REVENUES FROM SALES AND SERVICES	**147.610**	**98,8%**	**284.490**	**105,8%**	**149.312**	**106,6%**
Change in inventories of finished products	(198)	-0,1%	(20.608)	-7,7%	(12.246)	-8,7%
Other revenues	1.994	1,3%	5.106	1,9%	2.957	2,1%
VALUE OF PRODUCTION	**149.406**	**100,0%**	**268.988**	**100,0%**	**140.023**	**100,0%**
Raw materials	(38.517)	-25,8%	(67.471)	-25,1%	(37.228)	-26,6%
Services, leases and rentals	(58.581)	-39,2%	(108.718)	-40,4%	(55.817)	-39,9%
of which, related party transactions	*(2.488)*	*-1,7%*	*(5.048)*	*-1,9%*	*(2.481)*	*-1,8%*
Personnel costs	(35.568)	-23,8%	(68.036)	-25,3%	(35.260)	-25,2%
Change in inventories of raw materials	346	0,2%	(832)	-0,3%	(247)	-0,2%
Other operating expenses	(1.451)	-1,0%	(2.822)	-1,0%	(1.544)	-1,1%
PRODUCTION COSTS	**(133.771)**	**-89,5%**	**(247.879)**	**-92,2%**	**(130.096)**	**-92,9%**
GROSS OPERATING PROFIT	**15.635**	**10,5%**	**21.109**	**7,8%**	**9.927**	**7,1%**
Amortisation and depreciation	(8.481)	-5,7%	(17.139)	-6,4%	(8.309)	-5,9%
Provisions and writedowns	(1.536)	-1,0%	(2.964)	-1,1%	(1.381)	-1,0%
Non recurring Provisions and Writedowns	–	0,0%	(788)	-0,3%	(788)	-0,6%
NET OPERATING PROFIT	**5.618**	**3,8%**	**218**	**0,1%**	**(551)**	**-0,4%**
Financial income (expense)	782	0,5%	(4.732)	-1,8%	(2.759)	-2,0%
PRE-TAX PROFIT	**6.400**	**4,3%**	**(4.514)**	**-1,7%**	**(3.310)**	**-2,4%**
Income taxes	(2.806)	-1,9%	(94)	0,0%	(1.096)	-0,8%
NET PROFIT	**3.594**	**2,4%**	**(4.608)**	**-1,7%**	**(4.406)**	**-3,1%**
BASIC AND DILUTED EARNING PER SHARE	**0,08**		**(0,10)**		**(0,10)**	

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

	30th June 2010	30th June 2009	31st Dec 2009
A - OPERATIONS			
Net Result of the period	3.594	(4.406)	(4.608)
Amortisation, depreciation and impairments	8.481	8.309	17.339
Deferred tax liabilities (assets)	285	(89)	(395)
Net change in provisions	1.255	1.739	2.868
Cash flow (absorption) from operations prior to changes in working capital	*13.615*	*5.553*	*15.204*
(Increase)/Decrease in trade receivables	(14.550)	(7.235)	7.554
(Increase)/Decrease in inventories	(4.714)	12.997	21.695
(Increase)/Decrease in trade payables	6.698	(8.241)	(7.974)
Net change in other current assets/liabilities	3.276	(219)	(6.383)
Cash flow (absorption) from operations due to changes in working capital	*(9.290)*	*(2.698)*	*14.892*
TOTAL (A) CASH FLOW FROM OPERATIONS	**4.325**	**2.855**	**30.096**
B - INVESTMENT ACTIVITY			
Net investment in tangible and intangible assets	(3.695)	(7.326)	(15.918)
Net investment in financial assets	-	-	-
Exchange difference on tangible and intangible assets	(2.639)	202	532
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(6.334)**	**(7.124)**	**(15.386)**
C - FINANCING ACTIVITY			
Increase in capital	-	-	-
Distribution of dividends	-	(1.348)	(1.348)
Other changes in equity	-	-	-
(Purchase) Sale of treasury shares	-	-	-
Net change in loans	(4.823)	31.656	32.454
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**(4.822)**	**30.308**	**31.106**
Opening net cash (indebtedness)	**(23.277)**	**(68.078)**	**(68.078)**
Change in the translation reserve	**4.730**	**(239)**	**(1.015)**
Net change in net short-term cash (indebtness) (A+B+C)	**(6.832)**	**26.039**	**45.816**
Closing net cash (indebtness)	**(25.379)**	**(42.278)**	**(23.277)**
Supplementary information			
Interest paid	844	1.425	2.468
Income taxes paid	592	995	2.747

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