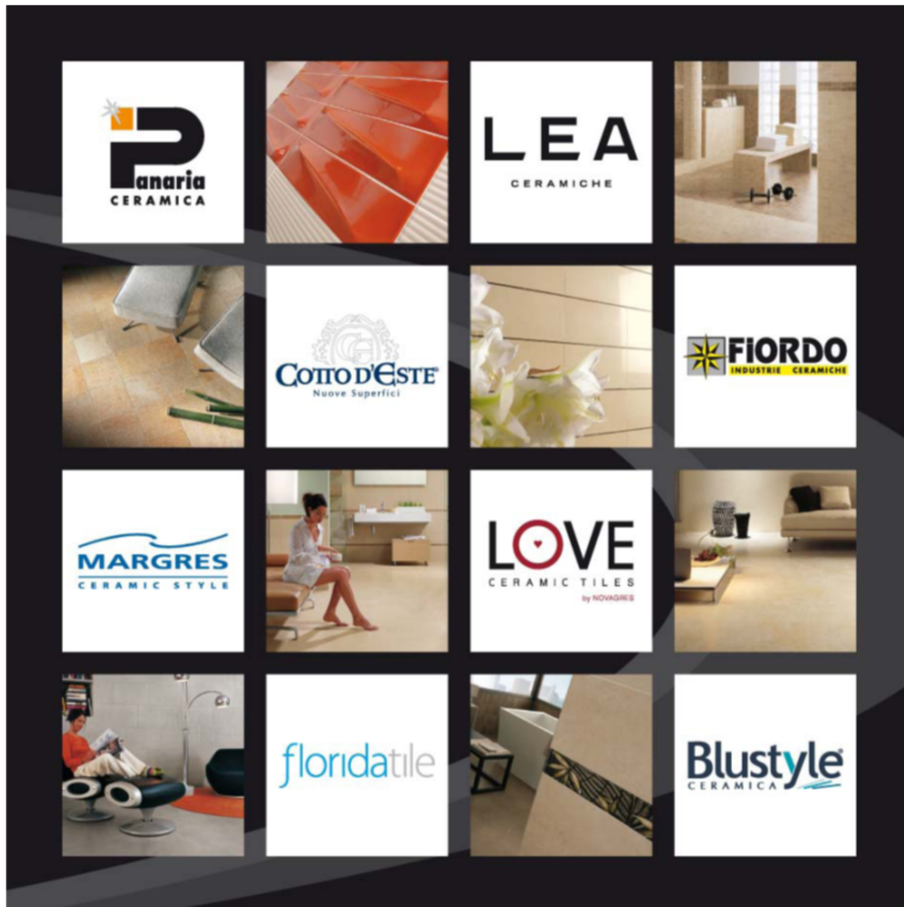
PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Directors' Interim Report on the 2012 Condensed Half-yearly Consolidated Financial Statements



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PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Panariagroup Industrie Ceramiche

DIRECTORS' INTERIM REPORT

The condensed half-yearly consolidated financial statements to 30 June 2012 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).

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.

In connection with regulations on the listing of parent companies incorporated or regulated under the laws of countries not belonging to the European Union and which have a significant impact on the consolidated financial statements, it should be noted that:

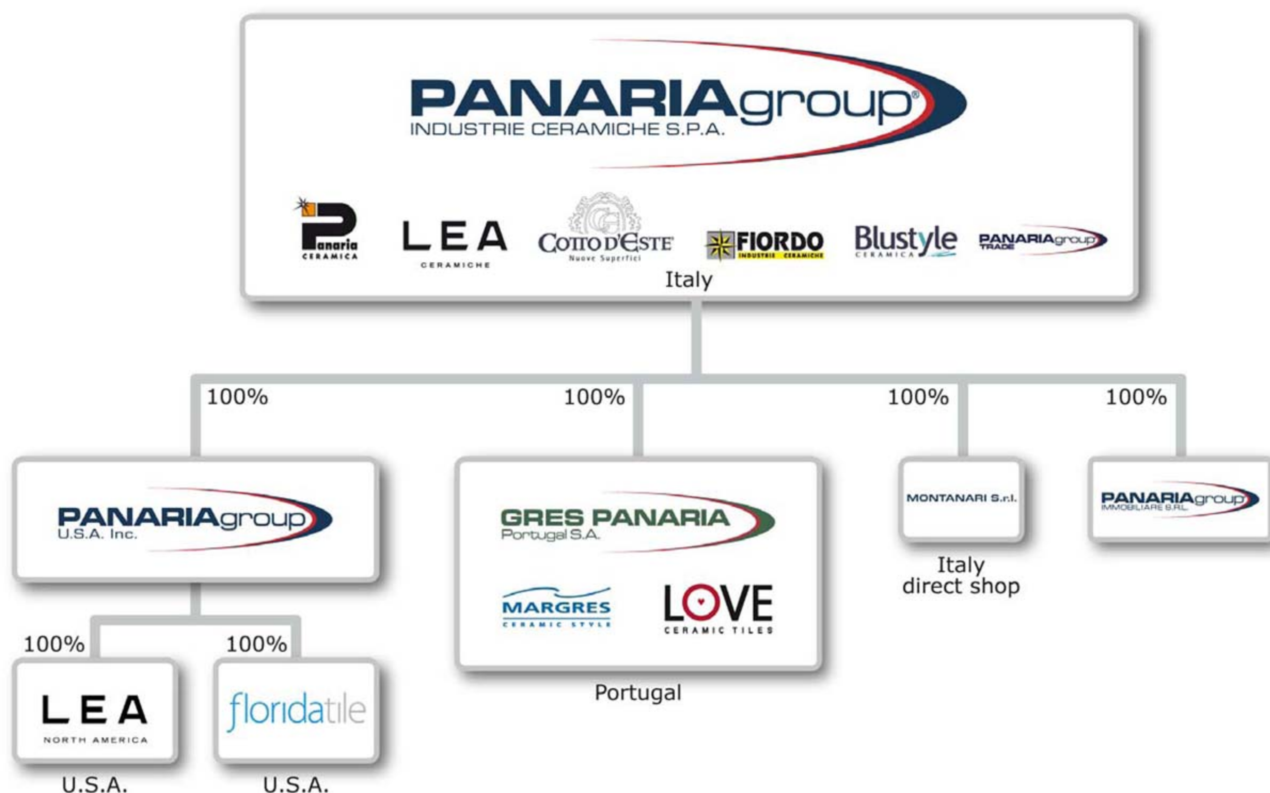
- As of 30 June 2012 the following companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc and Lea North America LLC

- Adequate procedures have been adopted to ensure thorough compliance with the new rules (art. 36 of Market Regulations issued by Consob).

The Directors' Report does not include any alternative performance measures and 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 2012 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 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 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.

Panariagroup Immobiliare, with head office in Finale Emilia, Modena (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A. This is a real estate company that as at 30 June had not yet commenced operations.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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
Enrico Palandri(*)	Director	Milan, 2/10/1962
Alessandro Iori(*)	Director	Reggio Emilia, 15/6/1943
Paolo Onofri(*)	Director	Bologna, 11/11/1946

(*) 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.

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Directors' Interim Report on the 2012 Condensed Half-yearly Consolidated Financial Statements

Results and significant events in the first half of 2012

Results

Shareholders,

During the first half of 2012, there was quite a contrast in the economic scenario. After a first quarter that provided a glimpse of a gradual stabilisation of macroeconomic trends, the second quarter was again characterised by marked instability.
Once again, at the middle of the turmoil stood the Eurozone, characterised by a crisis of confidence in the sovereign debt of some countries, by austerity measures and restrictions made in the criteria for granting credit.
Not even did the more dynamic emerging nations manage to avoid the economic slowdown, despite recording interesting growth trends, while, in North America, good growth rates were maintained.
The main stockmarkets showed visible contractions and the Euro to US Dollar exchange rate weakened.
In the countries traditionally served by the Group, developments in the construction industry are more and more differentiated. On one hand there is the United States where recovery in the industry is becoming consolidated, while on the other hand there are the Mediterranean European countries where activity in the real estate sector is penalised by factors of economic uncertainty and a lack of credit.
In the emerging nations (Asia and Middle and Far East), where we operate as Panariagroup Trade, the pace of construction activity has shown a positive trend allowing us to achieve significant growth.
With regards to prices of production inputs, in the first half of 2012 there has been a continuous growth in energy tariffs (methane and electricity) that has impacted the European plants.
In May, because of the earthquake that occurred in the Emilia Romagna region, with its epicentre in Finale Emilia, where one of Panariagroup's six plants is located, we suffered significant damage to the plant and buildings that forced us into an unexpected halt in production of some two months, to make all necessary repairs and checks. Production

activity restarted gradually and full plant efficiency was just achieved at the end of August. A further negative factor was the difficulty encountered in meeting orders tied to products from the factory hit by the earthquake, with a consequent reduction in turnover.

In this context, compared to the same prior year period, in the first half of 2012 our Group suffered a fall in turnover of 2.17% and a slight reduction in margins.

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

- Consolidated revenues from sales amounted to Euro 148.6 million, a decrease of 2.17% on the same period in 2011.
- Gross operating profit came to Euro 12.1 million (Euro 14.2 million to 30/6/2011).
- There was a net operating loss of Euro 0.3 million (profit of Euro 4.9 million to 30/6/2011). The result was impacted by the extraordinary cost “Net charges for earthquake reconstruction” of Euro 3 million, being the net amount of damages estimated to date less the amount ascertained to date of insurance claims. The estimate of the net charge was made on a prudent basis, in accordance with the accounting principles: only the payout confirmed by the insurer has been accounted for (even though the insurance cover is for a higher amount and is potentially sufficient to fully cover the costs directly related to the earthquake), whereas no account has been taken of possible government reconstruction grants for damages not covered by insurance.
- Consolidated net profit amounted to Euro 0.2 million (in the period to 30/6/2011 the net profit was Euro 1.0 million).

In the absence of the extraordinary impact on results caused by the earthquake, there would have been a net operating profit of Euro 2.7 million and a consolidated net profit of Euro 0.8 million, substantially in line with the results for the same prior year period.

Significant events

The most significant event in the half year was undoubtedly the earthquake, which significantly conditioned all of the business's operations and which we have commented upon above.

As of today, we note the extremely positive fact concerning the resumption of normal production activities at the plant in Finale Emilia, which, as from August 20 has been operating at full efficiency. This important and difficult result was achieved thanks to the contribution, the commitment and the dedication shown by employees and collaborators, despite being very much affected by personal and family problems brought about by the earthquake.

Returning to events more closely linked to the business, it should be noted that an important investment was made in production in the United States, by means of the installation of a second line for porcelain gres at the Lawrenceburg plant of the subsidiary Florida Tile, which started operations in May 2012.

The total investment made between the second half of 2011 and the first half of 2012 amounts to Euro 10 million.

The new structure of the plant ensures greater production capacity and lower unit costs, enhancing the Group's competitiveness in the United States, a market where an excellent growth trend is being achieved and for which the prospects for the medium-long term are particularly interesting.

In May 2012 our Group commenced the procedures required to set up a Joint Venture Company (hereafter “JVC”) in India, an investment 50% held by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market. The JCV's aim is to develop sales in what currently represents the third ceramics market in the world after China and Brazil in terms of consumption with annual growth rates in excess of 10%.

In August and September events were organised in India with the objective of presenting the JVC's products and sales organisation to potential customers; it is expected that orders will arrive and the first sales will be made in the last quarter of 2012.

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Review of the Group's results to 30 June 2012

Income statement - Comparison between 30 June 2011 and 30 June 2012

(in thousands of Euro)

INCOME STATEMENT - 2012 VS 2011

(thousands euro)

YTD	June 30, 2012	%	June 30, 2011	%	var.
Revenues from sales and services	**148,555**	**99.31%**	**151,846**	**96.88%**	**(3,291)**
Change in inventories of finished products	(2,071)	-1.38%	2,147	1.37%	(4,218)
Other revenues	3,098	2.07%	2,739	1.75%	359
Value of Production	**149,582**	**100.00%**	**156,732**	**100.00%**	**(7,150)**
Raw, ancillary and consumable materials	(39,749)	-26.57%	(43,304)	-27.63%	3,555
Services, leases and rentals	(61,185)	-40.90%	(61,457)	-39.21%	272
Personnel costs	(35,768)	-23.91%	(36,260)	-23.14%	492
Change in inventories of raw materials	523	0.35%	77	0.05%	446
Other operating expenses	(1,316)	-0.88%	(1,601)	-1.02%	285
Cost of production	**(137,495)**	**-91.92%**	**(142,545)**	**-90.95%**	**5,050**
Gross operating profit	**12,087**	**8.08%**	**14,187**	**9.05%**	**(2,100)**
Amortisation and depreciation	(8,351)	-5.58%	(8,250)	-5.26%	(101)
Provisions and impairments	(1,008)	-0.67%	(992)	-0.63%	(16)
Net expense for earthquake reconstruction	(3,000)	-2.01%	0	0.00%	(3,000)
Net operating profit	**(272)**	**-0.18%**	**4,945**	**3.16%**	**(5,217)**
Financial income and expense	(1,502)	-1.00%	(2,087)	-1.33%	585
Pre-tax profit	**(1,774)**	**-1.19%**	**2,858**	**1.82%**	**(4,632)**
Income taxes estimated	1,953	1.31%	(1,830)	-1.17%	3,783
Net profit for the period	**179**	**0.12%**	**1,028**	**0.66%**	**(849)**

Consolidated revenues

Revenues from sales turned in a decrease of **2.17%**, from Euro 151.8 million in the first half of 2011 to Euro 148.6 million to 30 June 2012 (- Euro 3.3 million).

Principal markets

As previously indicated, turnover has been characterised by two distinct factors, on one hand the contraction encountered in Western European markets and, on the other, significant growth in the American market and in the Middle and Far East markets.

Sales for the six months in the **US market,** which currently represents the Group's principal foreign market, totalled Euro 38.8 million, up 23% compared to the same period in 2011. Sales have been boosted by the good state of the U.S. property market and by the introduction of new collections that have found favour with customers.

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It should be noted that excellent results have been achieved both through the Florida Tile's direct store network and with sales through other channels, such as wholesalers and Home Centres. The U.S. market share represents more than 25% of total Group sales.

With respect to the **European market** there has been an overall contraction of 12.6%. The fall in turnover is wholly attributable to EU countries that have experienced a downturn compared to the first half of 2011 of -14.4%; the main contractions took place in Portugal, France and Holland.

Market shares in Eastern Europe have remained more or less unchanged compared to 2011.

European market share represents 37% of total sales.

The **Italian market**, compared to the first half of 2011, suffered a reduction in turnover of 14.3%.

The property crisis in our country reached its peak in 2012 with a significant drop in investment in residential and commercial construction.

Italian market share represents some 27% of total revenues.

Overseas markets (Asia and Oceania) were confirmed as being more dynamic, with overall growth in these areas of 34.3% compared to the first half of 2011. The main increases took place in Saudi Arabia, Azerbaijan, Singapore and the United Arab Emirates.

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, 2012	June 30, 2011	var.	%
1	ITALY	40,416	47,140	(6,724)	-14.3%
2	USA	38,795	31,543	7,252	23.0%
3	FRANCE	15,143	16,832	(1,689)	-10.0%
4	PORTUGAL	8,751	12,028	(3,277)	-27.2%
5	GERMANY	7,980	8,089	(109)	-1.3%
6	BELGIUM	6,986	7,899	(913)	-11.6%
7	SPAIN	3,192	2,417	775	32.1%
8	HOLLAND	2,633	4,222	(1,589)	-37.6%
9	CANADA	2,073	2,489	(416)	-16.7%
10	SWITZERLAND	2,022	1,922	100	5.2%
	OTHERS	23,082	20,297	2,785	13.7%
	TOTAL	**151,073**	**154,878**	**(3,805)**	**-2.5%**

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Operating results

The **gross operating profit** of Euro 12.1 million accounts for 8.08% of the value of production (Euro 14.2 million or 9.05% to 30 June 2011), with a decline of Euro 2.1 million.

The main factors behind this decrease in Group profitability are:

- fall in the margin due to an increase in energy prices impacting European business units, with an increase of some 25%;
- fall in the margin due to lower volumes produced compared to 2011, following the closure in May and June of the Finale Emilia plant;
- fall in the margin due to the impact of lower turnover;
- significant improvement in margins of the American Business Unit

The net operating loss of Euro 0.3 million has been particularly impacted by the extraordinary cost component “Net charges for earthquake reconstruction” of Euro 3 million relating to damage caused by the earthquake that hit the Finale Emilia plant, as previously commented upon.

The depreciation and amortisation charge is substantially in line with the first half of 2011.

The pre-tax loss comes to Euro 1.7 million (Euro 2.9 million to 30 June 2011). Without the extraordinary component of Euro 3 million, there would have been a profit before tax of Euro 1.3 million.

Financial expenses have fallen from Euro 2.1 to 1.5 million; financial items benefited from movements on the dollar exchange rate, which appreciated since the beginning of the year by over 7%, while in the first half of 2011 there was an opposite effect with depreciation of over 6%. Movements on the Euro/Dollar exchange rate generated a gain of Euro 0.3 million during the first half of 2012, whereas an exchange loss was recorded during the first half of 2011 of Euro 0.4 million.

Estimated income taxes show a debit balance of 1.9 million, helped by non-taxation of the insurance payout for the earthquake; this relates to a concession granted under legislation issued to aid those hit by the earthquake.

The consolidated net profit for the period is 0.2 million compared to 1 million in the first half of 2011. Net of the extraordinary impact of the earthquake, consolidated net profit would have been Euro 0.8 million.

PANARIA group INDUSTRIE CERAMICHE S.P.A.

Review of the balance sheet

Summary of the Reclassified Consolidated Balance sheet

(in thousands of Euro)

	June 30, 2012	December 31, 2011	June 30, 2011
Inventories	143,301	142,134	135,268
Accounts Receivable	91,861	82,997	97,436
Other current assets	13,908	6,436	7,119
CURRENT ASSETS	**249,070**	**231,567**	**239,823**
Accounts Payables	(66,920)	(62,306)	(64,258)
Other current liabilities	(27,920)	(26,506)	(35,494)
CURRENT LIABILITIES	**(94,840)**	**(88,812)**	**(99,752)**
NET WORKING CAPITAL	**154,230**	**142,755**	**140,071**
Goodwill	12,789	12,789	12,789
Intangible assets	2,578	2,697	2,735
Tangible assets	95,715	92,221	87,696
Equity Investments and other financial fixed assets	5	5	5
FIXED ASSETS	**111,087**	**107,712**	**103,225**
Receivables due after the following year	276	261	263
Provisions for termination benefits	(5,973)	(6,175)	(6,332)
Provisions for risks and charge and deferred taxes	(6,169)	(2,381)	(5,582)
Other payables due after the year	(3,353)	(4,045)	(538)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(15,219)**	**(12,340)**	**(12,189)**
NET CAPITAL EMPLOYED	**250,098**	**238,127**	**231,107**

	June 30, 2012	December 31, 2011	June 30, 2011
Short term financial assets	(2,388)	(3,101)	(5,078)
Short term financial debt	46,767	49,316	50,004
NET SHORT TERM FINANCIAL DEBT	**44,379**	**46,215**	**44,926**
Mid-long term financial debt	51,073	38,659	37,829
NET FINANCIAL POSITION	**95,452**	**84,874**	**82,755**
Group Shareholders' Equity	154,646	153,253	148,352
SHAREHOLDERS' EQUITY	**154,646**	**153,253**	**148,352**
TOTAL SOURCES OF FUNDS	**250,098**	**238,127**	**231,107**

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

Net working capital

If compared with the 31 December 2011 balance, working capital shows an increase of Euro 11.5 million; the main factors that have generated this increase are attributable to:

- increase in trade receivables of Euro 8.9 million; it should be noted that this increase is physiological at the end of the first half, due to the effects of the seasonal nature of sales. In fact, if compared to the balance at the end of the first half of 2011, the overall exposure to customers has actually fallen by more than 5%;
- increase in “Other current assets” of Euro 7.5 million mainly due to the amount “Due from insurance companies for earthquake damage” accounted for as the minimum payout confirmed by the insurance company based on analyses and inspections made to date;
- increase in the value of inventory of Euro 1.2 million: even though inventory volumes have fallen, the appreciation of the Dollar since the year end has resulted in a higher valuation of the US company’s inventory in Euro. Our target for 2012 continues to be to lower inventory volumes, bringing them into line with effective commercial requirements.

Non-current assets

Non-current assets have increased by Euro 3.4 million since the start of the year.

This increase reflects:

- capital expenditure of Euro 11.4 million relating to Euro 3.8 million of implementations made at the Italian plants, Euro 0.6 million of capital expenditure at the Portuguese plants and Euro 7.0 million of capital expenditure made at the American plant in Lawrenceburg as previously described.
- the higher value of fixed assets of the US sub-consolidation expressed in Euro, because of the appreciation of the dollar since the end of 2011, of Euro 0.4 million.
- depreciation and amortisation for the period of Euro 8.4 million.

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Net financial indebtedness

Financial cash flow
(thousands euro)

	June 30, 2012	December 31, 2011	June 30, 2011
Net financial position (debt) - beginning	**(84,874)**	**(78,602)**	**(78,602)**
Net Result	179	1,551	1,028
D & A	8,351	17,621	8,250
Net Variation Provisions	(550)	(1,953)	136
Internal operating Cash flow	**7,980**	**17,219**	**9,414**
Change in net working capital	(7,748)	(1,886)	(5,441)
Net Investments	(11,584)	(18,804)	(6,480)
Net change in tax provision for "State Aid"	0	(3,999)	0
Other movements	770	1,198	(1,646)
Net financial position (debt) - final	**(95,456)**	**(84,874)**	**(82,755)**

Net financial indebtedness has increased since the beginning of the year by Euro 10.5 million. Two factors have contributed to this result; an increase in working capital driven by an increase in receivables and significant capital expenditure relating to the construction of a new porcelain gres production line for the Lawrenceburg plant in the USA.
We foresee an improvement, starting from the third quarter of 2012.

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:

CONSOLIDATED FINANCIAL STATEMENTS

Breakdown of assets by geographical area (amounts in thousand Euro)- IFRS classification

ASSETS	Italy	Europe	USA	Other	Total
CURRENT ASSETS	**136,917**	**55,466**	**50,660**	**9,087**	**252,130**
Inventories	81,511	26,057	35,733	0	143,301
Trade receivables	44,132	26,080	12,562	9,087	91,861
Due from tax authorities	2,080	2,915	5	0	5,000
Other current assets	7,876	324	1,380	0	9,580
Cash and cash equivalents	1,318	90	980	0	2,388
NON-CURRENT ASSETS	**47,627**	**41,704**	**35,664**	**0**	**124,995**
Goodwill	700	12,089	0	0	12,789
Intangible assets	883	264	1,431	0	2,578
Property, plant and equipment	40,931	31,770	23,014	0	95,715
Financial assets	5	0	10,089	0	10,094
Deferred tax assets	5,123	(2,419)	839	0	3,543
Other non-current assets	(15)	0	291	0	276
TOTAL ASSETS	**184,544**	**97,170**	**86,324**	**9,087**	**377,125**

	Italy	Europe	USA	Other	Total
Investments in tangible assets 2012	**3,786**	**573**	**7,082**	**0**	**11,441**

Research and development activities

Research and development activities have continued in 2012 within the sector of reference in which our Group has always distinguished itself.
Research and development activities include applied research in our laboratories and the adoption of advanced production technologies.

These two activities, added to the constant technological upgrading of facilities aimed at seeking solutions in production processes to enable cost savings, have allowed us to develop product lines with a high technical content and aesthetic innovations that guarantee us supremacy in the high/deluxe end of the ceramic tile market.

The new product lines completed and in the course of being completed in 2012, especially those presented on the occasion of the customary appointment at the 2012 CERSAIE

trade fair (the most important trade fair in the world for the sector that is held at the end of September) are expected to meet with adequate approval and the positive outcome of these innovations should be capable of generating good results in terms of turnover, with a favourable impact on the business.

Transactions with parent companies, affiliates and related parties

As regards the condensed half-yearly consolidated financial statements for 2012, 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.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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 with the corresponding consolidated amounts reported at 30 June 2012 (in thousands of Euro):

(thousands euro)

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	**138,653**	**(939)**
a) Difference between the book value of equity investments and their value using the equity method	16,195	1,603
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(590)	(36)
c) Reversal of exchange losses (gains) on intercompany loan	0	(486)
d) Alignment to Group depreciation's rates	182	(11)
e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	68	(7)
f) Elimination of unrealised gains arising on the intercompany dividend distribution	0	0
f) Others	137	55
h) Write-down of carrying amount of investments in subsidiaries	0	0
Net effect of consolidation adjustments	**15,992**	**1,118**
As per consolidated financial statements	**154,645**	**179**

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 24 April 2012, the Company has renewed a stock buy-back programme which stood as follows at 30 June 2012:

no of Shares	*%*	*Average book value*	*Amount*
432,234	**0.953%**	**3.7347**	**1,614,284.94**

The number of treasury shares in portfolio is the same as at 31 December 2011, as no purchases or sales were made during 2012.

Panariagroup Industrie Ceramiche S.p.A. does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2012; there are therefore 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 2012.

Privacy

In accordance with Attachment B) of decree 196/2003 (Privacy Act), the directors acknowledge that the company has complied with the minimum security measures provided for by that legislation.

In particular, pursuant to point 26 of the this same Attachment B), the company has properly prepared a Policy Document on Privacy for the year 2012 that has been deposited at the head office and may be consulted by authorised persons and/or the appropriate authorities.

Significant subsequent events

Asian Panaria Private Ltd., 50% held, was capitalised in August 2012.

Outlook for Group operations

The unfavourable economic environment that has hit Western European markets and which has particularly impacted countries like Portugal and Italy, has severely impacted our business. Thanks to the push towards the internationalisation of production and trade that has characterised the development policy of our Group in recent years, we have been able to offset these negative effects with excellent results in North America and Asia.
The recent establishment of the Indian JVC demonstrates the Group's intention to further expand its horizons in the most promising markets.
The general economic outlook for the short term is not much different from the current trend and, accordingly, our business will address the consolidation of the results of initiatives already undertaken in order to reap the benefits thereof and the constant search for new areas for regional, product 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 Issuer Regulations, introducing the requirement for directors of such companies to identify, evaluate and manage risks relating to the Company's activities. The main types of risk that have been identified are as follows:

GENERAL ECONOMIC RISK

The financial markets became especially volatile during 2012, 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 a negative impact on the balance sheet, 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: (i) producers in emerging markets, who are particularly competitive price-wise and target the lower end of the market; (ii) European 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 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.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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 2011 and 2012. 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 Group'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.

The average workforce in the first half of 2012 consisted of 1,637 people, a decrease of 11 employees compared with the average figure for 2011.

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 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 30/06/2012

Name	Investment held in	Number of shares held at the end of prior year	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at 30/06/2012	Type of holding	Type of ownership
		506,282	162,041		668,323	Direct	Property
Mussini Giuliano	Panariagroup	4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	142,534	46,830		189,364	Direct	Property
		55,617	8,000		63,617	Direct	Property
Pini Giuliano	Panariagroup	4,880	3,000		7,880	Spouse	Property
		89,436	50,000		139,436	Direct	Property
Mussini Emilio	Panariagroup	3,080	10,000		13,080	Spouse	Property
		56,400			56,400	Direct	Property
Mussini Giuseppe	Panariagroup	30,400			30,400	Spouse	Property
Mussini Andrea	Panariagroup	438,359	195,500		633,859	Direct	Property
		42,560			42,560	Direct	Property
Mussini Marco	Panariagroup	9,340			9,340	Spouse	Property
Mussini Paolo	Panariagroup	90,000	30,000		120,000	Direct	Property
		440			440	Direct	Property
Iori Alessandro	Panariagroup	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 balance sheet and the IFRS-format balance sheet at 30/6/2012
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31/12/2011
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Finale Emilia, 4 October 2012 ***Emilio Mussini***

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position
figures at 30/06/2012

STATEMENT OF FINANCIAL POSITION- IFRS

ASSETS	30/6/2012	RIF
CURRENT ASSETS	**252,130**	
Inventories	143,301	(A)
Trade receivables	91,861	(B)
Due from tax authorities	5,000	(C)
Other current assets	9,580	(D)
Cash and cash equivalents	2,388	(E)
NON -CURRENT ASSETS	**124,995**	
Goodwill	12,789	(F)
Intangible assets	2,578	(G)
Property, plant and equipment	95,715	(H)
Financial assets	10,094	(I)
Deferred tax assets	3,543	(J)
Other non-current assets	276	(L)
TOTAL ASSETS	**377,125**	
LIABILITIES AND EQUITY	**30/6/2012**	
CURRENT LIABILITIES	**142,279**	
Due to banks and other sources of finance	47,439	(M)
Trade payables	66,920	(N)
Due to tax authorities	1,689	(O)
Other current liabilities	26,231	(P)
NON-CURRENT LIABILITIES	**80,200**	
Employee severance indemnities	5,973	(Q)
Deferred tax liabilities	-	(R)
Provisions for risks and charges	9,712	(S)
Due to banks and other sources of finance	61,162	(T)
Other non- current liabilities	3,353	(U)
TOTAL LIABILITIES	**222,479**	
EQUITY	**154,646**	
Share capital	22,678	(V)
Reserves	131,789	(W)
Net result for the year	179	(X)
TOTAL LIABILITIES AND EQUITY	**377,125**	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	30/6/2012	RIF
Inventories	143,301	(A)
Trade receivables	91,861	(B)
Other current assets	13,908	(C)+(D)-(*)
CURRENT ASSETS	**249,070**	
Trade payables	(66,920)	(N)
Other current liabilities	(27,920)	(O) + (P)
CURRENT LIABILITIES	**(94,840)**	
NET WORKING CAPITAL	**154,230**	
Goodwill	12,789	(F)
Intangible assets	2,578	(G)
Property, plant and equipment	95,715	(H)
Equity investments and financial assets	9	(I) - (**)
FIXED ASSETS	**111,091**	
Receivables due beyond 12 months	276	(L)
Employee severance indemnities	(5,973)	(Q)
Provisions for risks and charges and deferred taxation	(6,169)	(J)+(R)+(S)
Other liabilities due beyond 12 months	(3,353)	(U)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	**(15,219)**	
NET CAPITAL EMPLOYED	**250,102**	
Short-term financial assets	(2,388)	(E)
Short-term financial indebtedness	46,767	(M) - (*)
NET SHORT-TERM FINANCIAL INDEBTEDNESS	**44,379**	
Long -term financial indebtedness	51,077	(T) - (**)
NET LONG-TERM FINANCIAL INDEBTEDNESS	**51,077**	
NET FINANCIAL POSITION	**95,456**	
Group interest in equity	154,646	(V)+(W)+(X)
EQUITY	**154,646**	
TOTAL SOURCES	**250,102**	

(*) CURRENT PORTION OF IRB **672**
Classified under current assets in the IFRS statement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON -CURRENT PORTION OF IRB **10,085**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position figures at 31/12/2011

STATEMENT OF FINANCIAL POSITION- IFRS

ASSETS	31/12/2011	RIF
CURRENT ASSETS	235,321	
Inventories	142,134	(A)
Trade receivables	82,997	(B)
Due from tax authorities	3,578	(C)
Other current assets	3,511	(D)
Cash and cash equivalents	3,101	(E)
NON -CURRENT ASSETS	119,638	
Goodwill	12,789	(F)
Intangible assets	2,697	(G)
Property, plant and equipment	92,221	(H)
Financial assets	10,473	(I)
Deferred tax assets	1,197	(J)
Other non-current assets	261	(L)
TOTAL ASSETS	354,959	

LIABILITIES AND EQUITY	31/12/2011	RIF
CURRENT LIABILITIES	138,781	
Due to banks and other sources of finance	49,969	(M)
Trade payables	62,306	(N)
Due to tax authorities	2,324	(O)
Other current liabilities	24,182	(P)
NON-CURRENT LIABILITIES	62,925	
Employee severance indemnities	6,175	(Q)
Deferred tax liabilities	-	(R)
Provisions for risks and charges	3,578	(S)
Due to banks and other sources of finance	49,127	(T)
Other non- current liabilities	4,045	(U)
TOTAL LIABILITIES	201,706	
EQUITY	153,253	
Share capital	22,678	(V)
Reserves	129,024	(W)
Net result for the year	1,551	(X)
TOTAL LIABILITIES AND EQUITY	354,959	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	31/12/2011	RIF
Inventories	142,134	(A)
Trade receivables	82,997	(B)
Other current assets	6,436	(C)+(D)-(*)
CURRENT ASSETS	231,567	
Trade payables	(62,306)	(N)
Other current liabilities	(26,506)	(O) + (P)
CURRENT LIABILITIES	(88,812)	
NET WORKING CAPITAL	142,755	
Goodwill	12,789	(F)
Intangible assets	2,697	(G)
Property, plant and equipment	92,221	(H)
Equity investments and financial assets	5	(I) - (**)
FIXED ASSETS	107,712	
Receivables due beyond 12 months	261	(L)
Employee severance indemnities	(6,175)	(Q)
Provisions for risks and charges and deferred taxation	(2,381)	(J)+(R)+(S)
Other liabilities due beyond 12 months	(4,045)	(U)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	(12,340)	
NET CAPITAL EMPLOYED	238,127	
Short-term financial assets	(3,101)	(E)
Short-term financial indebtedness	49,316	(M) - (*)
NET SHORT-TERM FINANCIAL INDEBTEDNESS	46,215	
Long -term financial indebtedness	38,659	(T) - (**)
NET LONG-TERM FINANCIAL INDEBTEDNESS	38,659	
NET FINANCIAL POSITION	84,874	
Group interest in equity	153,253	(V)+(W)+(X)
EQUITY	153,253	
TOTAL SOURCES	238,127	

(*) CURRENT PORTION OF IRB **653**
Classified under current assets in the IFRS statement of financial position
Included in the short-term financial indebtedness in the reclassified statement of financial position

(**) NON -CURRENT PORTION OF IRB **10,468**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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.

(in thousands of euro)

		30/06/2012	
	Short-term securities	(672)	
A	Cash and cash equivalents	(2,388)	
	Short-term financial assets	**(3,060)**	
	Long-term securities	(10,085)	
	Long-term financial assets	**(10,085)**	
B	Due to banks	25,916	
	Current portion of long-term loans	20,851	
	Leases	672	
	Short-term financial indebtedness	**47,439**	
	Non-current portion of long-term loans	51,077	
	Leases	10,085	
	Long-term financial indebtedness	**61,162**	
C	**Net indebtedness**	**95,456**	
	Net short-term financial indebtedness	**23,528**	**= A + B**
	(as reported in IFRS cash flow statement)		
	Total net financial position	**95,456**	**= C**
	(as reported in summary of cash flow contained in the Directors' Report)		

PANARIAGROUP

CONDENSED HALF-YEARLY CONSOLIDATED FINANCIAL STATEMENTS

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

rif	ASSETS	30/06/2012	31/12/2011	30/06/2011
	CURRENT ASSETS	**252,130**	**235,321**	**245,486**
1.a	Inventories	143,301	142,134	135,268
1.b	Trade Receivables	91,861	82,997	97,436
1.c	Due from tax authorities	5,000	3,578	4,270
1.d	Other current assets	9,580	3,511	3,434
1.e	Cash and cash equivalents	2,388	3,101	5,078
	NON-CURRENT ASSETS	**124,995**	**119,638**	**112,860**
2.a	Goodwill	12,789	12,789	12,789
2.b	Intangible assets	2,578	2,697	2,735
2.c	Property, plant and equipment	95,715	92,221	87,696
2.d	Financial assets	10,094	10,473	9,377
2.e	Deferred tax assets	3,543	1,197	0
2.f	Other non-current assets	276	261	263
	TOTAL ASSETS	**377,125**	**354,959**	**358,346**

rif	LIABILITIES	30/06/2012	31/12/2011	30/06/2011
	CURRENT LIABILITIES	**142,279**	**138,781**	**150,341**
3.a	Due to banks and other sources of finance	47,439	49,969	50,589
3.b	Trade payables	66,920	62,306	64,258
3.c	Due to tax authorities	1,689	2,324	8,129
3.d	Other current liabilities	26,231	24,182	27,365
	NON-CURRENT LIABILITIES	**80,200**	**62,925**	**59,653**
4.a	Employee severance indemnities	5,973	6,175	6,332
4.b.	Deferred tax liabilities	0	0	1,864
4.c	Provisions for risks and charges	9,712	3,578	3,718
4.d	Due to banks and other sources of finance	61,162	49,127	47,201
4.e	Other non-current liabilities	3,353	4,045	538
	TOTAL LIABILITIES	**222,479**	**201,706**	**209,994**
5	**EQUITY**	**154,646**	**153,253**	**148,352**
	Share capital	22,678	22,678	22,678
	Reserves	131,789	129,024	124,646
	Net profit for the period	179	1,551	1,028
	TOTAL LIABILITIES AND EQUITY	**377,125**	**354,959**	**358,346**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT - IFRS
(THOUSANDS OF EURO)

rif		30/6/2012		31/12/2011		30/6/2011	
6.a	**Revenues from sales and services**	**148,555**	**99.3%**	**291,397**	**96.0%**	**151,846**	**96.9%**
	Change in inventories of finished products	(2,071)	-1.4%	6,199	2.0%	2,147	1.4%
6.b	Other revenues	3,098	2.1%	6,040	2.0%	2,739	1.7%
	Value of production	**149,582**	**100.0%**	**303,636**	**100.0%**	**156,732**	**100.0%**
7.a	Raw materials	(39,749)	-26.6%	(81,440)	-26.8%	(43,304)	-27.6%
7.b	Services, leases and rentals	(61,185)	-40.9%	(123,044)	-40.5%	(61,457)	-39.2%
	of which, related party transactions	*(2,652)*	*-1.8%*	*(5,132)*	*-1.7%*	*(2,512)*	*-1.6%*
7.c	Personnel costs	(35,768)	-23.9%	(70,701)	-23.3%	(36,260)	-23.1%
	Change in inventories of raw materials	523	0.3%	165	0.1%	77	0.0%
7.d	Other operating expenses	(1,316)	-0.9%	(2,989)	-1.0%	(1,601)	-1.0%
	Production costs	**(137,495)**	**-91.9%**	**(278,009)**	**-91.6%**	**(142,545)**	**-90.9%**
	Gross operating profit	**12,087**	**8.1%**	**25,627**	**8.4%**	**14,187**	**9.1%**
8.a	Amortisation and depreciation	(8,351)	-5.6%	(17,621)	-5.8%	(8,250)	-5.3%
8.b	Provisions and writedowns	(1,008)	-0.7%	(3,051)	-1.0%	(992)	-0.6%
8.c	Net expense for earthquake reconstruction	(3,000)	-2.0%				
	Net operating profit	**(272)**	**-0.2%**	**4,955**	**1.6%**	**4,945**	**3.2%**
9.a	Financial income (expense)	(1,502)	-1.0%	(2,954)	-1.0%	(2,087)	-1.3%
	Pre-tax profit	**(1,774)**	**-1.2%**	**2,001**	**0.7%**	**2,858**	**1.8%**
10.a	Income taxes	1,953	1.3%	(450)	-0.1%	(1,830)	-1.2%
	Net profit for the period	**179**	**0.1%**	**1,551**	**0.5%**	**1,028**	**0.7%**
	BASIC AND DILUTED EARNING PER SHARE	**0.004**		**0.034**		**0.023**	

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

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	30/06/2012	31/12/2011	30/06/2011
NET PROFIT (LOSS) FOR THE PERIOD	**179**	**1,551**	**1,028**
OTHER COMPONENTS OF COMPREHENSIVE INCOME			
Exchange rate differences from foreign operations	1,214	1,529	(2,849)
COMPREHENSIVE INCOME FOR THE PERIOD	**1,393**	**3,080**	**(1,821)**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS - IFRS
(THOUSANDS OF EURO)

(thousands of euro)	30 June 2012	30 June 2011	31 December 2011
A - OPERATIONS			
Net Result for the period	179	1,028	1,551
Amortisation, depreciation and impairments	8,351	8,250	17,621
Deferred tax liabilities (assets)	(2,346)	(574)	(3,635)
Net change in provision for taxes for "State aid"	-	-	(3,999)
Net change in provisions	1,796	710	1,682
Cash flow (absorption) from operations prior to changes in working capital	*7,980*	*9,414*	*13,220*
(Increase)/Decrease in trade receivables	(10,128)	(14,447)	(1,205)
(Increase)/Decrease in inventories	(667)	(325)	(7,562)
(Increase)/Decrease in trade payables	4,614	4,311	2,359
Net change in other current assets/liabilities	(1,566)	5,020	4,522
Cash flow (absorption) from operations due to changes in working capital	*(7,747)*	*(5,441)*	*(1,886)*
TOTAL (A) CASH FLOW FROM OPERATIONS	**233**	**3,973**	**11,334**
B - INVESTMENT ACTIVITY			
Net investment in tangible and intangible assets	(11,581)	(6,479)	(18,804)
Net investment in financial assets	(3)	(1)	-
Exchange difference on tangible and intangible assets	(445)	1,203	(332)
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(12,029)**	**(5,277)**	**(19,136)**
C - FINANCING ACTIVITY			
Increase in capital	-	-	-
Distribution of dividends	-	-	-
Other changes in equity	-	-	-
(Purchase) Sale of treasury shares	-	-	-
Net change in loans	13,466	(7,132)	(537)
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**13,466**	**(7,132)**	**(537)**
Opening net cash (indebtedness)	**(26,413)**	**(19,603)**	**(19,603)**
Change in the translation reserve	**1,214**	**(2,849)**	**1,529**
Net change in net short-term cash (indebtness) (A+B+C)	**1,670**	**(8,436)**	**(8,339)**
Closing net cash (indebtness)	**(23,529)**	**(30,888)**	**(26,413)**
Supplementary information			
Interest paid	1,222	931	2,149
Income taxes paid	0	1,556	8,665

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.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in consolidated equity in first half 2011 and first half 2012

(THOUSANDS OF EURO)	*Share capital*	*Share premium reserve*	*Revaluation reserves*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2011	**22,678**	**60,783**	**4,493**	**3,368**	**40,402**	**(1,134)**	**18,139**	**1,444**	**150,173**
Translation of foreign company financial statements into Euro						(1,548)			(1,548)
Exchange difference on loans to foreign companies						(1,301)			(1,301)
Total gains (losses) booked directly to equity						**(2,849)**			**(2,849)**
Allocation of 2010 profit				104	1,977		(637)	(1,444)	
Sale (Purchase) of treasury shares									
Distribution of dividends									
Net profit (loss) for period								1,028	1,028
Balance as of 30.06.2011	**22,678**	**60,783**	**4,493**	**3,472**	**42,379**	**(3,983)**	**17,502**	**1,028**	**148,352**
Balance as of 01.01.2012	**22,678**	**60,783**	**4,493**	**3,472**	**41,742**	**395**	**18,139**	**1,551**	**153,253**
Translation of foreign company financial statements into Euro						728			728
Exchange difference on loans to foreign companies						486			486
Total gains (losses) booked directly to equity						**1,214**			**1,214**
Allocation of 2011 profit				109	2,068		(626)	(1,551)	
Sale (purchase) of treasury shares									
Distribution of dividends									
Net profit (loss) for period								179	179
Balance as of 30.06.2012	**22,678**	**60,783**	**4,493**	**3,581**	**43,810**	**1,609**	**17,513**	**179**	**154,646**

PANARIAGROUP

EXPLANATORY NOTES

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

INTRODUCTION

Panariagroup Industrie Ceramiche S.p.A. (the "Company") is a joint-stock company incorporated in Italy and registered in the Companies Register of Modena. It has fully paid-in share capital of Euro 22,677,645.50 and its registered offices are in Via Panaria Bassa 22/A, Finale Emilia (Modena), Italy. It is listed on the STAR segment of the Italian Stock Exchange.

The companies that make up the Panaria Group (the "Group") produce and sell ceramic tiles for floors and wall coverings.

The condensed half-yearly consolidated financial statements 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 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 accounting principles and reporting formats used for preparing these consolidated financial statements do not differ from those applied since adopting IFRS.

The currency used to draw up the consolidated financial statements for the period 1 January - 30 June 2012 (hereafter also referred to as "the consolidated financial statements") is the euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled “Accounting Principles”.

The condensed half-yearly consolidated financial statements include:

- the consolidated balance sheet at 30 June 2012, with comparative figures at 31 December 2011 and 30 June 2011. The balance sheet has been drawn up in a declining liquidity format, as decided at the time of the transition to IFRS, with current and non-current assets and liabilities shown separately based on a 12-month operating cycle.

  In addition, as required by Consob resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately on the face of the balance sheet.

- the consolidated income statement for the first half of 2012, with comparative figures from the consolidated income statement for the year ended 31 December 2011 and the consolidated income statement for the first half of 2011.

It should be noted that, as decided at the time of the transition to IFRS, the consolidated income statement shows the following interim results, even if they are not accepted by IFRS as a valid accounting measurement, because Group management is of the opinion that the information is important for an understanding the Group's results for the period:

- *Gross operating profit:* is made up of the pre-tax profit before financial income and expense, depreciation and amortisation, provisions, net charges for earthquake reconstruction and impairment charges made during the period;
- *Net operating profit:* is made up of the pre-tax profit before financial income and expense;
- *Pre-tax profit:* this is made up of the profit for the period before income taxes.

In order to clearly present the impact on the results of the earthquake that hit Emilia Romagna in May 2012, a specific caption entitled "Net charges for earthquake reconstruction" has been included in the income statement and which encompasses the costs and income relating to this event, gross of the tax effect thereon.
This approach has been taken in accordance with the requirements of paragraph 83 of "IAS 1 Presentation of Financial Statements": *"Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance"*.

As required by Consob resolution 15519 of 27 July 2006, the effects of any significant related party transactions are shown separately on the face of the income statement.

Consob resolution 15519 of 27 July 2006 also requires separate disclosure on the face of the income statement of any significant non-recurring items of income or expense or those arising from transactions and events that are not repeated frequently in the normal course of business.

- The consolidated statement of comprehensive income for the first half of 2012, with comparative figures for the year ended 31 December 2011 and the first half of 2011, presented in accordance with the requirements of IAS 1 revised.

- a consolidated cash flow statement for the first half of 2012, for the whole of 2011 and the first half of 2011. The so-called "indirect method" has been used in drawing up the cash flow statement, which means that the net profit for the period has been adjusted for the effects of transactions of a non-monetary nature, for any deferral or provision for previous or future years' operating receipts or payments, and for any elements of revenue or cost related to the cash flows deriving from investment or financial activity.

- a statement of changes in consolidated equity during the first half of 2011 and during the first half of 2012.

- the explanatory notes (with related attachments).

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

1) GENERAL INFORMATION ON THE GROUP

The companies that make up the Panaria Group produce and sell ceramic tiles for floors and wall coverings.
The Group's products are sold in more than 60 countries under eight distinctive brand names: Panaria, Lea, Cotto d'Este, Fiordo, Blustyle, Margres, Love Ceramic Tiles and Florida Tile.

The Parent Company is **Panariagroup Industrie Ceramiche S.p.A.** It has fully paid-in share capital of Euro 22,677,645.50 and its registered offices are in Via Panaria Bassa 22/A, Finale Emilia (Modena), Italy. It is listed on the STAR segment of the Italian Stock Exchange.

The other companies included in the scope of consolidation are:

- **Gres Panaria Portugal S.A.**, with head office in Ilhavo, Portugal, share capital Euro 16,500,000
- **Panariagroup USA Inc.,** with head office in Delaware, USA and share capital of USD 65,500,000 fully paid-in
- **Lea North America LLC.**, with head office in Delaware, USA, and share capital of USD 20,000 fully paid-in
- **Florida Tile Inc.**, with head office in Delaware, USA and share capital of USD 25,000,000 fully paid-in
- **Montanari Francesco S.r.l.,** with head office in Crespellano, Italy and share capital of Euro 48,000 paid-in
- **Panariagroup Immobiliare S.r.l.**, with head office in Finale Emila, Italy and share capital of Euro 10,000

These companies are all 100% controlled, directly or indirectly, by Panariagroup Industrie Ceramiche S.p.A.

Panariagroup Immobiliare S.r.l. was set up during the first half of 2012; to date it has not carried out any activity.

In May 2012 the Group commenced the procedures required to set up a Joint Venture Company (JVC) in Ahmedabad, in the Indian state of Gujarat. The company is 50% held by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market. The procedures for the set up of the company were completed subsequent to 30 June 2012.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The half-yearly consolidated financial statements to 30 June 2012 include the financial statements of Panariagroup Industrie Ceramiche SpA and of those companies over which it exercises direct or indirect control, as defined in paragraphs 12 to 17 of IAS 27.
This standard states that control over another enterprise exists when the company has the power to determine its financial and operating policies so that the company can obtain benefits from the other's activity.

Subsidiaries are consolidated from the date on which the Group takes over control and are excluded from the scope of consolidation from the date on which such control ceases to exist.

Where necessary, adjustments are made to the subsidiaries' financial statements to bring them into line with Group accounting policies.

The carrying value of investments in consolidated companies held by the Parent or by other Group companies is eliminated against the related portion of equity and their assets and liabilities are combined on a line-by-line basis.

The excess value of equity investments over the related portion of equity at the time of acquisition, if any, is allocated firstly to assets and liabilities whose fair values are higher than their book values; any residual amount is booked to goodwill. In accordance with the transitional provisions of IFRS 3, the Group changed its accounting policy for the Maronagres goodwill as from the transition date (1 January 2004). In other words, starting on this date, the Group stopped amortising the Maronagres goodwill and now tests it for impairment. The other goodwill has been generated since the transition date and so has never been amortised.

All significant intercompany transactions and balances between Group companies are eliminated on consolidation.

General principles

The financial statements have been prepared on an historical cost basis, except for certain financial instruments which are measured at fair value, and on a going-concern basis. In particular, despite the difficult economic and financial conditions, the Group has determined that there are no uncertainties about business continuity, not least due to the action taken to adapt to the different level of demand, as well as to the industrial and financial flexibility of the Group.

The main accounting policies applied are described below. As mentioned previously, the accounting policies used in preparing these consolidated financial statements do not differ from those applied starting from the IFRS adoption date.

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method described in IFRS 3. The purchase cost is determined by the sum of the fair values, as of the transaction date, of the assets given, the liabilities incurred or taken over, and the financial instruments issued by the Group in exchange for control of the enterprise acquired, plus the costs directly attributable to the business combination.

The identifiable assets, liabilities and contingent liabilities acquired that comply with the conditions for recognition contained in IFRS 3 are booked at their fair values at the acquisition date, accounting for the tax effect of the difference between their fair and book values.

Any positive difference between the purchase cost and the Group's portion of the fair value of such assets and liabilities is booked as goodwill, if this is justified, and capitalised as an intangible asset. If, after the redetermination of these fair values, the Group's portion of the fair values of the identifiable assets, liabilities and contingent liabilities exceeds the purchase cost, the excess is immediately written off to the income statement, as IFRS 3 does not allow the recognition of negative goodwill.

Minority interests in the acquired enterprise are initially valued at an amount equal to their portion of the fair values of the identifiable assets, liabilities and contingent liabilities.

Goodwill

Goodwill deriving from the acquisition of a subsidiary or joint venture represents the excess purchase cost compared with the Group's portion of the fair value of the subsidiary or joint venture's assets, liabilities and contingent liabilities identifiable at the acquisition date. Goodwill is recognised as an asset if the excess cost paid can be justified as such. It is not amortised, whereas the value is reviewed annually to ensure that it has not suffered impairment. Impairment losses are booked immediately to the income statement and are not subsequently reinstated.

If a subsidiary or joint venture is sold, the unamortised amount of any goodwill attributable to it is to be taken into account when calculating the disposal gain or loss.

Note that on first-time adoption of IFRS, the Group elected not to apply IFRS 3 "Business Combinations" retroactively to the acquisitions that took place prior to 1 January 2004; it follows that the Maronagres goodwill, which was generated by an acquisition that took place prior to the transition to IFRS, has been maintained at its previous value, calculated in accordance with Italian GAAP, having tested it for any impairment of value.

Intangible assets

Intangible assets consist of non-monetary elements, without any physical substance, that are clearly identifiable and able to generate future economic benefits. Such elements are booked at purchase or production cost, including directly attributable expenses incurred to permit the asset to be used, net of accumulated amortisation and any impairment losses. Amortisation begins when the asset is available for use and is charged systematically over its estimated useful life.

Bought-in software licences are capitalised on the basis of the costs incurred for their purchase and to bring them into use. Amortisation is calculated on a straight-line basis over their estimated useful life.

The costs associated with the development and maintenance of software programs are accounted for as a cost when incurred. The costs directly associated with the production of unique and identifiable software products that are under a consolidated company's control and which will generate future economic benefits over a time horizon of more than one year are accounted for as intangible assets.

Internally generated intangible assets - research and development costs

Research costs are booked to the income statement in the period in which they are incurred.

Internally generated intangible assets that derive from the Group's product development efforts are only capitalised if all of the following conditions are satisfied:
- the asset is identifiable (e.g. software or new processes);
- it is probable that the asset will create future economic benefits;
- the development costs of the asset can be reliably measured.

Such intangible assets are amortised on a straight-line basis over the estimated useful lives of the related products.

When internally generated assets cannot be capitalised, the development costs are written off to the period in which they are incurred.

Trademarks and patents

Patents and trademarks are initially booked at purchase cost and amortised on a straight-line basis over their estimated useful life.

Property, plant and equipment

Property, plant and equipment are booked at historical cost, net of accumulated depreciation and any writedowns due to impairment. Cost includes the best estimate, if significant, of the costs involved in dismantling and removing the asset and the costs involved in reclaiming the site where the asset was located, if these come under the provisions of IAS 37.

For certain fixed assets on transition to IFRS, instead of using the original cost at the date the asset was purchased, the Group decided to adopt a higher value based on specific revaluation laws, as the new value of the assets was a better approximation of their market value at the date the revaluations were carried out.

Any costs incurred after the purchase are only capitalised if they add to the future economic benefits inherent in the asset to which they refer. All other costs are written off when incurred. In particular, ordinary or cyclical repairs and maintenance costs are booked directly to the income statement in the period they are incurred.

Depreciation is charged on a straight-line basis against the cost of the assets, net of their residual values, over their estimated useful life, applying the following rates (main categories):

Category	Rate
Buildings	4%
Plant and machinery	10 %-15 %
Industrial equipment	25 %
Electronic office machines	20% - 25%
Furniture and showroom furnishings	10% - 15%
Vehicles	25%

Land is not depreciated.

Depreciation starts when the assets are ready for use.

If a depreciable asset is made up of distinctly identifiable elements that have significantly different useful lives, depreciation is charged separately on each of the elements making up the asset, based on the so-called component approach.

Assets held on the basis of finance leases are depreciated over their estimated useful life, in the same way as for assets owned, or over the period of the lease contract if this is less.

Gains and losses on the sale or disposal of fixed assets are calculated as the difference between the sale proceeds and the net book value of the asset, and are to be booked to the income statement of the period in which the sale or disposal takes place.

Impairment losses

At each balance sheet date, the Group reviews the book value of its tangible and intangible assets for any signs that these assets may have suffered a loss in value. If there are signs that this is the case, the recoverable value of such assets is estimated so as to determine the amount of the writedown. When it is not possible to estimate the recoverable value of an asset individually, the Group makes an estimate of the recoverable value of the cash generating unit (CGU) to which the asset belongs.

Intangible assets with an indefinite useful life, which refer exclusively to goodwill, are tested annually for impairment and any other time that there are signs of a possible loss in value.

The recoverable value is the higher of the asset's fair value, net of selling costs, and its value in use. To determine the value in use, the estimated future cash flows are discounted to their present value at a rate net of tax that reflects current market assessments of the time value of money and the specific risks of the business in question.

If the recoverable value of an asset (or of a CGU) is reckoned to be lower that its book value, it is written down to the lower recoverable value.
Impairment losses are booked to the income statement immediately, unless the asset was booked at revalued cost as the deemed historical cost on the transition to IFRS, in which case the loss is booked against the related revaluation reserve.

If a writedown is no longer justified, the book value of the asset (or of the CGU), except for goodwill, is increased to the new value deriving from an estimate of its recoverable value, though this cannot be more that the net book value that the asset would have had if an impairment loss had not been recognised. Writebacks are booked to the income statement immediately, unless the asset was booked at revalued cost as the deemed historical cost on the transition to IFRS, in which case the writeback is booked to the related revaluation reserve.

Leases

Leases are classified as finance leases if the terms of the contract substantially transfer all of the risks and rewards of ownership to the lessee. All other contracts are treated as operating leases.

Assets under finance leases are booked as Group assets at their fair value on the date of entering the contract or at the present value of the minimum lease payments, if this is less. The corresponding liability to the lessor is included in the consolidated balance sheet as a lease liability. The lease instalment payments are split between principal and interest so as to achieve a constant rate of interest on the residual liability.

The lease instalment costs under operating leases are booked on a straight-line basis over the life of the contract. The benefits received or to be received by way of incentive to take out operating leases are also booked on a straight-line basis over the life of the contract.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes direct

materials and, where applicable, direct labour costs, production overheads and other costs incurred to bring the inventories to their current location and condition. Cost is calculated on the basis of the weighted average cost method. Net realisable value represents the estimated selling price less the estimated costs of completion and the costs considered necessary to make the sale.

Trade receivables

Trade receivables are shown at face value less an appropriate writedown to reflect estimated losses on receivables. Appropriate writedowns as an estimate of the amounts that are unlikely to be recovered are booked to the income statement when there is objective proof that the receivables have suffered an impairment. Writedowns are measured as the difference between the carrying value of the receivables and the present value of the estimated future cash flows discounted at the effective rate of interest calculated when the receivables are first booked.

Financial assets

Financial assets are booked to and reversed out of the balance sheet on the basis of the date of purchase or sale and are initially valued at cost, including any charges directly related to the purchase.

At subsequent balance sheet dates, the financial assets that the Group intends and has the ability to hold to maturity ("securities held to maturity") are shown at amortised cost using the effective interest rate method, net of any writedowns for impairment.

Financial assets other than those held to maturity are classified as being held for trading or available for sale, and are measured at fair value at the end of every period. When financial assets are held for trading, the gains and losses deriving from changes in their fair value are recognised in current period profit or loss; for financial assets available for sale, the gains and losses deriving from changes in their fair value are booked directly to equity until such time that they are sold or have suffered an impairment; at that moment, the overall gains and losses previously booked to equity are transferred to current period profit or loss.

Cash and cash equivalents

This includes cash on hand, bank current and deposit accounts that are available on demand and other highly liquid short-term financial investments that can rapidly be converted into cash and which are not subject to a significant risk of changes in value.

Derivatives

The Group's activities are primarily exposed to financial risks arising from changes in exchange rates. In certain cases, the Group uses derivatives to hedge the risks deriving from foreign exchange fluctuations that might affect commitments that are certain and irrevocable, as well as foreseeable future transactions. Even though these derivatives are not held for trading purposes, but solely to cover exchange rate risks, they do not have the characteristics required by IAS 39 to be defined as hedging derivatives.

Derivatives are initially recognised at cost and then adjusted to fair value at subsequent period ends.

Changes in the fair value of derivatives that do not qualify for hedge accounting are booked to income in the period they arise.

Provisions

Provisions are recognised in the financial statements when the Group has a clear obligation as the result of a past event and it is probable that it will be required to fulfil the obligation. Provisions are made on the basis of management's best estimate of the costs required to fulfil the obligation as of the balance sheet date, and are discounted if the effect is significant.

Post-employment benefits

Payments into defined-contribution pension plans are booked to the income statement in the period in which they are due; payments to Foncer, a supplementary pension scheme, fall into this category, as well as payments of severance indemnities since the start of 2007 under the reform of these indemnities by the Budget Law for 2007.

For defined-benefit plans, the cost of the benefits provided is calculated by performing actuarial valuations at the end of each financial period. Actuarial gains and losses that exceed 10% of the present value of the Group's defined-benefit liabilities are spread over the estimated average working life of the employees that have joined the plan.
Past service costs are recognised immediately to the extent that the benefits have already accrued; otherwise, they are spread equally over the average period in which the benefits are expected to accrue.
Liabilities for post-employment benefits shown in the balance sheet consist of the present value of the liabilities for defined-benefit plans adjusted to take account of the actuarial gains and losses that have not yet been recognised and of any past service costs that have not yet been recognised. Any net assets resulting from this calculation are limited to the value of the actuarial losses not yet recognised and to past service costs that have not yet been recognised, plus the net present value of any reimbursements and reductions in future contributions to the plan.
Severance indemnities accruing up to 31 December 2006 fall into the category of defined-benefit plans.

Trade payables

Trade payables are booked at their face value.

Financial liabilities and equity instruments

The financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual agreements that generated them and according to the respective definitions of financial liabilities and equity instruments. The latter are defined as contracts that give a right to benefit from the residual interests in the Group's assets

after all liabilities have been deducted. The accounting principles used for specific financial liabilities and equity instruments are indicated below.

Equity instruments

The equity instruments issued by the Company are booked on the basis of the amount received, net of direct issue costs.

Bank loans

Interest-bearing bank loans and overdrafts are booked on the basis of the amounts received, net of any related costs, and subsequently valued at amortised cost, using the effective interest rate method.

Treasury shares

Treasury shares are deducted directly from equity: gains and losses realised on their disposal are booked directly to the equity reserves.

Revenue recognition

Sales of goods are recognised when the goods are shipped and the company has transferred the main risks and rewards of ownership to the customer.

Foreign currency transactions

The financial statements of the individual Group companies are prepared in the currency of the main economic environment in which they operate (functional currency). For consolidation purposes, the financial statements of each foreign entity are expressed in euro, which is the functional currency of the Group and the currency in which the consolidated financial statements are presented. In preparing the financial statements of the individual entities, transactions in currencies other than the euro are initially booked at the exchange rates ruling on the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in such currencies are restated at period-end exchange rates. Non-monetary assets expressed at fair value that are denominated in a foreign currency are translated at the exchange rates ruling on the date on which the fair values were determined. Exchange differences arising on the settlement of monetary items and their remeasurement at period-end exchange rates are booked to the income statement for the period, except for exchange differences on non-monetary assets expressed at fair value, for which changes in fair value are booked directly to equity, like for the exchange element.

For the presentation of the consolidated financial statements, the assets and liabilities of foreign subsidiaries that use functional currencies other than the euro are translated at the exchange rates ruling on the balance sheet date. Revenues and expenses are translated at the average exchange rates for the period. The exchange differences that arise as a result of this exercise are booked to the translation reserve in equity. The positive or negative balance on this reserve is then transferred to the income statement in the period when the subsidiary concerned is sold.

The companies that prepared financial statements in currencies other than the euro were as follows:

	Reporting currency
Lea North America LLC.	USD
Panariagroup USA Inc.	USD
Florida Tile Inc.	USD

The EUR/USD exchange rates used to translate these financial statements are as follows:

	30/6/2012	31/12/2011	30/06/2011
Average exchange rate for the period	1.2965	1.3920	1.4032
Current exchange rate at the balance sheet date	1.2590	1.2939	1.4453

In accordance with IAS 21, exchange differences originating from the elimination of intragroup foreign currency loans, that form part of an investment in a foreign operation, are recognised as a separate component of equity, net of the related tax; such exchange differences are recognised in profit or loss only when the investment is sold.

Following the application of IAS 1 (revised in 2007), exchange differences arising from foreign operations are now reported in the statement of comprehensive income.

Government grants

Government grants for capital investments are booked to the income statement over the period needed to match them against the related costs, being treated in the meantime as deferred income. In particular, they are booked when there is reasonable certainty that the company will comply with the requirements for the allocation of funds, and that the grants will be received.

Income taxes

Income taxes are recognised on the basis of the best estimate of the weighted average rate expected for the full year and so subject to normal uncertainties.

Significant accounting policies based on the use of estimates

Preparation of the consolidated financial statements requires management to apply accounting principles and methods that in certain circumstances necessitate difficult and subjective valuations and estimates based on past experience and assumptions that, on each occasion, are considered reasonable and realistic, depending on the specific circumstances. These estimates and assumptions affect the amounts shown in the financial statements, namely the balance sheet, income statement and cash flow statement, as well as the other information provided in the report. The following is a brief description of the accounting principles that, more than others, require greater subjectivity on the part of management in making such estimates and for which a change in the conditions underlying the assumptions made can have a significant impact on the Group's consolidated financial statements.

Goodwill – Estimate of the degree of recoverability

The Group is showing various amounts of goodwill that arose on company acquisitions.
These amounts of goodwill are not amortised, but tested at least once a year for impairment, in accordance with the provisions of IAS 36, based on forecasts of expected cash flows over coming years. If the future scenarios for the Group and the market turn out to be different from those assumed when developing the forecasts, the value of goodwill may have to be written down.

Inventory valuation and provision for slow-moving and obsolete goods

The Group values its inventories at the lower of cost and market (estimated realisable value), based on evaluations of market trends and making assumptions regarding the future realisability of the value of inventories. If effective market conditions turn out to be less favourable than those foreseen by the Group, the value of inventories may have to be written down.

Provision for bad and doubtful accounts

In order to establish an appropriate level for the provision for bad and doubtful accounts, the Group evaluates the likelihood of receivables being collected based on the solvency of each debtor. The quality of these estimates depends on the availability of up-to-date information on debtors' solvency. If the solvency of debtors were to decline due to the difficult economic environment in certain markets where the Group operates, the value of trade receivables could be subject to additional writedowns.

Deferred tax assets

Deferred tax assets are accounted for on the basis of expectations of taxable income in future years. The valuation of expected income for this purpose depends on factors that vary over time, which can have a significant impact on the value of deferred tax assets.

Contingent liabilities

In connection with legal proceedings, court cases and other disputes, to establish an appropriate level for the provisions for risks and charges relating to contingent liabilities, the Group examines the reasonableness of the claims being made by counterparties and the fairness of its own actions, and evaluates the amount of any damages that might result if the outcome is negative. The Group also consults with its lawyers on the problems involved in the disputes that arise as part of the Group's business activities. The level of the provisions needed to cover contingent liabilities is decided after careful analysis of each problem area. The level of provisions needed is potentially subject to future changes based on developments in each problem area.

Significant non-recurring events and transactions – Atypical and/or unusual transactions

As required by Consob Communication DEM/6064293 of 28 July 2006, any significant non-recurring events and transactions or atypical/unusual transactions have to be explained in the notes, disclosing their impact on the Group's balance sheet, financial position, results and cash flow.

Related parties

As required by Consob Communication DEM/6064293 of 28 July 2006, the explanatory notes have to explain the impact that related party transactions have on the Group's balance sheet, financial position, results and cash flow.

Accounting standards, amendments and interpretations applicable from 1 January 2012 that are not relevant for the Group

The following amendments and interpretations regulate circumstances that do not exist within the Group at the date of these consolidated financial statements, though they could have an accounting impact on future transactions or agreements:

Revised version of IAS 24 – Related Party Disclosures

Amendment to IAS 32 - Financial Instruments: Presentation: Classification of Rights Issues;

Amendment to IFRIC 14 – Advance Payments in the Context of Minimum Funding Requirements;

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;

Improvement to IAS/IFRS (2010).

Accounting standards, amendments and interpretations applied as from 1 January 2012

The following accounting standards, amendments and interpretations have been applied by the Group for the first time as from 1 January 2012:

On 7 October 2010, the IASB published a number of amendments to IFRS 7 – Financial Instruments: Disclosures. The amendments were issued with the intention of improving the comprehension of transactions involving the transfer (derecognition) of financial assets, including comprehension of the possible effects of any risks remaining with the company that transferred the assets. The amendments also require additional disclosures to be made in the event that a disproportionate amount of such transactions is carried out towards the end of an accounting period. The adoption of this amendment has had no impact on the financial statement disclosures.

Accounting standards, amendments and interpretations not yet effective and not adopted early by the Group

As at the period end date of these half-yearly consolidated financial statements, the EU authorities had not yet concluded the approval process needed for the adoption of the amendments and standards described below.

On 20 December 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires companies to determine deferred taxation on an asset (mainly investment property measured at fair value) on the basis that its carrying amount will be recovered (through ongoing use or sale). As a result of this amendment, SIC-21 – Income taxes – Recovery of Revalued Non-Depreciable Assets will no longer be applicable. The amendment is applicable retrospectively from 1 January 2012, but given that it has not yet been approved by the European Union, it may not be applied to the half-yearly report to 30 June 2012. Adoption of this amendment would not have had any impact on the measurement of the financial statement components in the period to 30 June 2012.

On 12 November 2009 IASB issued IFRS 9 – Financial instruments: this standard was then amended on 28 October 2010. The standard, which is applicable from 1 January 2015, represents the first part of a process that consists of a number of stages. The purpose is to replace IAS 39 in its entirety, introducing new criteria for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard uses a single approach based on the ways in which financial instruments are managed and on the contractual cash flow characteristics of the financial assets concerned, in order to decide how they should be measured, substituting the various rules laid down in IAS 39. For financial liabilities, on the other hand, the principal amendment concerns the accounting treatment of changes in the fair value of a financial liability designated as a "financial liability measured at fair value through profit and loss", in the event that they are due to a change in the credit worthiness of the liability. Under the new standard, such changes have to be recognised in "Total other gains and losses" without passing through the income statement.

On 12 May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements which will replace the SIC-12 Consolidation - Special Purpose Entities (vehicle companies) and parts of IAS 27 - Consolidated and Separate Financial Statements, which will be renamed Separate Financial Statements and will discipline the accounting treatment of equity investments in separate financial statements. The new policy derives from existing standards, identifying in the concept of control the determining factor for the consolidation of a company in the consolidated financial statements of the Parent Company. It also provides guidance for determining the existence of control in circumstances where it is difficult to ascertain. The principle is applicable retrospectively from 1 January 2013.

On 12 May 2011, the IASB issued IFRS 11 - Joint Arrangements, which will replace IAS 31 - Equity Investments in Joint Ventures and SIC-13 - Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The new standard, without prejudice to the criteria for the determination of the existence of joint control, outlines the accounting by entities that jointly control an arrangement based on the rights and obligations arising from agreements rather than on their legal form and provides that the sole method for accounting for equity investments in jointly controlled entities in consolidated financial statements is the equity method. The principle is applicable retrospectively from 1 January 2013. Following the issuance of this standard, IAS 28 - Equity Investments in Associated Companies was amended to include equity investments in jointly controlled entities within its scope from the effective date of the standard.

On 12 May 2011, the IASB issued IFRS 12 - Disclosure of Interests in Other Entities, which is a new and comprehensive standard on the additional information to be provided on each type of participation, including those in subsidiary companies, partnership agreements, associates, special purpose entities and other non-consolidated vehicle companies. The principle is applicable retrospectively from 1 January 2013.

On 12 May 2011, the IASB issued IFRS 13 - Fair Value Measurement, which explains how the fair value has to be determined for financial statement purposes. It applies to all the standards that require or permit fair value measurement or the presentation of information based on fair value. This amendment is applicable on a forward-looking basis from 1 January 2013.

On 16 December 2011, the IASB issued amendments to IAS 32 - Financial Instruments: Presentation, to clarify the application of criteria for offsetting financial assets and financial liabilities included in IAS 32. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

On 16 December 2011, the IASB issued amendments to IFRS 7 - Financial instruments: Disclosures. The amendment provides disclosure requirements on the effect or potential effect of offsetting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods subsequent to that date. The information must be provided retrospectively.

On 28 June 2012, the IASB published the document entitled "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)".
Firstly, the document clarifies the intentions of the Board with reference to the transition guidance in IFRS 10 "Consolidated Financial Statements". The document issued defines the date of initial application of IFRS 10 as the beginning of the annual period in which IFRS 10 is applied for the first time. Accordingly, for an entity that has a financial year that coincides with the calendar year and for which the initial application of IFRS 10 is for the year ended 31 December 2013, the date of initial application shall be 1 January 2013.
In the event that the consolidation conclusion reached is the same under IAS 27 Consolidated and Separate Financial Statements / SIC-12 Consolidation - Special Purpose Entities and IFRS 10 at the date of initial recognition, the entity will have no obligation. Similarly, no obligation would arise if the interest were disposed of during a comparative period (and as such no longer present at the date of initial application).
The document proposes to amend IFRS 10 to clarify how an investor should retrospectively adjust the comparative period/s if the consolidation conclusion is not the

same as under IAS 27 / SIC 12 and IFRS 10 at the date of initial application.
In particular, when a retrospective adjustment as defined above is not feasible, an acquisition or disposal should be recorded at the beginning of the comparative period presented, with an appropriate adjustment made to retained earnings.
In addition, the Board amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide similar relief for the presentation or amendment of comparative information for periods prior to the immediately preceding period (i.e. the comparative period presented in the financial statements). IFRS 12 is further amended by limiting the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods prior to the date of application of IFRS 12.
The amendments are applicable, together with the standards they refer to, for annual periods beginning on or after 1 January 2013, unless they are adopted earlier.

As at the period end date of these half-yearly consolidated financial statements, the European Union's competent bodies have concluded the approval process required for the adoption of amendments and standards as detailed below, but for which the Group has not opted for early adoption.

On 16 June 2011, the IASB issued an amendment to IAS 1 - Presentation of Financial Statements to require companies to group together all the components presented under "Total other gains (losses)" depending on whether or not they are likely to be reclassified at a later stage in the income statement. The amendment is effective from periods beginning on or after 1 July 2012.

On 16 June 2011, the IASB issued an amendment to IAS 19 - Employee Benefits, which eliminates the option to defer recognition of actuarial gains and losses with the corridor method, requiring the presentation in the balance sheet and statement of changes in financial position of the deficit or surplus in the fund, and recognition of the cost components related to work performance and the net financial expense in the income statement, as well as recognition of actuarial gains and losses arising from remeasurement of liabilities and assets under "Total other gains (losses)". Moreover, the return on assets included in net financial expense will have to be calculated on the basis of the discount rate of the liability and no longer on the expected return on assets. The amendment also introduces new disclosures to be made in the notes. The amendment is effective retrospectively from the period beginning on or after 1 January 2013.

Financial risks and derivatives

The Group is exposed to a variety of trading and financial risks which are monitored and managed centrally. It does not make systematic use of derivatives to minimise the impact of such risks on its results.

The market risks to which the Group is exposed fall into the following categories:

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars.
Exchange rate risk mainly arises from the sale of finished products to the US market, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.

In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps.
See the "Financial income and expense" section of these notes for the sensitivity analysis required by IFRS 7.

b) Credit risk

The Group deals only with known, reliable customers. The Group has procedures for assigning credit to its customers that limit the maximum exposure to every position. In addition, the Group has extensive insurance coverage against its receivables from foreign customers.
The Group does not have any significant concentrations of credit risk.

See the "Trade receivables" section of these notes for the composition of trade receivables broken down by due date.

c) Interest rate risk

Risks associated with changes in interest rates refer to loans. Floating-rate loans expose the Group to the risk of fluctuating cash flows associated with interest payments. Fixed-rate loans expose the Group to the risk of change in the fair value of the loans themselves.

The Group's exposure is mainly to floating-rate debt.

See the "Financial income and expense" section of these notes for the sensitivity analysis required by IFRS 7.

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group's objective is to ensure that it can meet all of its financial obligations at any moment in time, optimising its recourse to external financing. The Group maintains a certain number of lines of credit (see section 3.a "Due to banks and other sources of finance") in order to take advantage of unforeseen business opportunities which may arise or for unforeseen payments, in addition to commitments arising from planned capital expenditure.

Liquidity risk is closely monitored on a daily basis in order to plan for and predict liquidity.

See the comments in section 4.d “Due to banks and other sources of finance” for information regarding the contractual maturities of the financial liabilities.

3) OTHER INFORMATION

Presentation of the consolidated financial statements

To assist readers, the consolidated financial statements are stated in thousands of Euro.

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Subsequent events

There are no matters worth mentioning.

4) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. CURRENT ASSETS

1.a. Inventories

This caption comprises:

	30/6/2012	31/12/2011	30/6/2011
Raw, ancillary and consumable materials	12,681	12,204	11,211
Work in progress	2,148	2,003	1,968
Finished products	124,822	125,495	119,324
Buildings held for sale	3,650	2,432	2,765
	143,301	**142,134**	**135,268**

The overall value of inventories has slightly increased (+0.8%) compared with the start of the year. Finished products have decreased by about 2.5% in terms of square metres in stock; the decrease is reduced to 0.5% due to the impact of the appreciation of the dollar (resulting in a higher value of inventories originally stated in U.S. currency) and higher unit production costs mainly driven by a significant increase in energy factors.

Inventories are shown net of a provision for obsolescence of Euro 12,602 thousand at 30 June 2012 (Euro 13,107 thousand at 31 December 2011), based on an analysis to estimate the timing of sale and recoverable value of stocks according to historical experience and the market prospects of the various types of goods.

Inventories include Euro 3,650 thousand of buildings held for sale (mainly apartments), net of an impairment charge of Euro 250 thousand, based on the estimated market value of the assets at the end of the period. The increase compared with the 31 December 2011 balance is due to the purchase in the first half of 2012 of two apartments and a building for commercial use.

1.b. Trade receivables

Trade receivables are made up as follows:

	30/6/2012	31/12/2011	30/6/2011
Trade receivables	97,587	88,190	101,710
Provision for bad and doubtful accounts	(5,726)	(5,193)	(4,274)
	91,861	**82,997**	**97,436**

Gross trade receivables were 4% down on the 30 June 2011 balance, against an overall decline in sales of 2%. The increase compared with the balance at beginning of the year, on the other hand, is typical of the first half because of the seasonal nature of sales.

"Trade receivables" include around Euro 5.7 million in amounts over 120 days past due (corresponding to about 5.9 % of total receivables), for which there is a provision for bad and doubtful accounts of Euro 5.7 million. The provision for bad and doubtful accounts reflects an estimate of the recoverable value of receivables, based on the information available at the time of preparing the condensed half-yearly consolidated financial statements. The provision for bad and doubtful accounts has been increased since the previous year to reflect the higher risk of collection in certain markets where the Group operates, because of the ongoing difficult economic climate.

At 30 June 2012 a total of around Euro 1.0 million in amounts due from customers were guaranteed by "preliminary agreements" for the sale of apartments (around Euro 0.9 million at 31 December 2011).

As in previous periods, the Group did not factor any of its receivables during the first half of the year.

1.c. Due from tax authorities

The amounts due from tax authorities are made up as follows:

	30/6/2012	31/12/2011	30/6/2011
VAT receivable	3,318	1,298	2,629
Advance tax payments	1,092	1,690	19
Other amounts due from tax authorities	590	590	1,622
	5,000	**3,578**	**4,270**

The Group's VAT position is normally in credit, mainly because of the high proportion of exports.

VAT receivable includes Euro 204 thousand for which a refund has been requested in relation to VAT that was not deducted on motor vehicles in years 2003 to 2006, as now permitted under Decree 258/06.

"Income tax" refers to the balance between the advance payments made and income taxes due for the period. As from the 2008 tax return (for 2007 income), the Parent Company Panariagroup Industrie Ceramiche S.p.A. has been included in the tax group headed up by its ultimate parent Finpanaria S.p.A., which also includes the related company Immobiliare Gemma S.p.A. and Montanari Francesco S.r.l. The income tax (IRES) credit or debit is therefore a receivable or payable to the parent company which, in its role as tax holding company, handles all dealings with the tax authorities.

The amounts due from tax authorities do not include any items of dubious collectability.

1.d. Other current assets

This caption is made up as follows:

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	30/6/2012	31/12/2011	30/6/2011
Advances to social security institutions	1,496	349	1,115
Advances to suppliers	231	397	156
Rebates from suppliers and credit notes to be received	58	245	46
Loans to employees/third parties	307	260	319
IRB – Current portion	672	654	585
Grants to be received	-	192	-
Due from insurance companies for earthquake damage	5,200	-	-
Other	138	208	114
Total other current receivables	**8,102**	**2,305**	**2,335**
- prepaid rents	448	558	433
- accrued and prepaid insurance premiums	315	156	279
- other accrued income and prepaid expenses	715	492	387
Total current accrued income and prepaid expenses	**1,478**	**1,206**	**1,099**
	9,580	**3,511**	**3,434**

The item “IRB – Current portion” relates to the principal element of the 20-year *Industrial Revenue Bond* that matures within 12 months, as explained in the section on financial assets.

The amount "Due from insurance companies for earthquake damage" of Euro 5,200 thousand is the minimum payout already acknowledged by insurance companies on the basis of analyses and inspections made to date. Reference should be made to the specific income statement section (paragraph 8.c) for further clarification.

The prepaid rent of Euro 448 thousand at 30 June 2012 relates to Florida Tile's leases for the premises occupied by its distribution branches.

"Other accrued income and prepaid expenses" mainly relate to miscellaneous costs (interest, trade fairs, promotions, commercial costs, maintenance and rentals) that are attributable to subsequent periods.

1.e. Cash and cash equivalents

These are made up as follows:

	30/6/2012	31/12/2011	30/6/2011
Bank and post office deposits	2,327	3,055	5,018
Cheques	2	-	-
Cash and equivalents on hand	59	46	60
	2,388	**3,101**	**5,078**

The changes in financial position during the first half of 2012, with comparative figures for the first half of 2011 and the whole of 2011, are shown in the consolidated cash flow statement provided earlier.

NON-CURRENT ASSETS

2.a. Goodwill

Goodwill of Euro 12,789 thousand refers to:

- the higher price paid for the acquisition of Maronagres Comercio e Industria Ceramica S.A. (value at 30 June 2012: Euro 4,235 thousand), net of the amortisation charged prior to the IFRS transition date;
- the higher price paid for the acquisition of Novagres Industria de Ceramica S.A. (value at 30 June 2012: Euro 7,854 thousand) compared with the Group's portion of its equity, adjusted to take account of the fair value of this company's assets and liabilities on the acquisition date;
- the higher price paid for the acquisition of Montanari Francesco S.r.l., net of impairment of Euro 200 thousand recorded in 2009 (net value at 30 June 2012: Euro 700 thousand), with respect to the Group's portion of its equity, as adjusted to take account of the fair value of that company's assets and liabilities on the acquisition date.

As regards the goodwill relating to Maronagres, it derives from an acquisition that was carried out prior to the IFRS transition date. Its book value is therefore the amount resulting from the application of Italian GAAP as of that date (so-called "deemed cost”).

The acquisitions of Novagres and Montanari, on the other hand, have been accounted for in accordance with IFRS 3.

These two Portuguese companies, purchased in 2002 and 2005 respectively, were merged at the end of 2006 to form a single entity called Gres Panaria Portugal S.A.

The acquisition of Florida Tile did not involve booking any goodwill.

As stated earlier in the section on Accounting Principles, the Group tests goodwill, intangible assets and property, plant and equipment for impairment in accordance with IAS 36 at least once a year and whenever there are signs that they might be impaired.

At 30 June 2012, particularly due to Portuguese market trends as disclosed in the directors' report, sensitivity analysis was performed on the business plan prepared at the 2011 year end, in order to simulate the impact thereon of sales achieved in the first half of 2012, mainly with respect to the Portuguese subsidiary Gres Panaria Portugal; from this analysis, there was no indication that goodwill, intangible assets and property, plant and equipment recorded in the condensed half-yearly consolidated financial statements have suffered an impairment loss.

The following guarantees were obtained upon acquisition:

- in the case of the former Maronagres, any liabilities arising from events that took place prior to the acquisition are covered by the following guarantees given by the sellers to the Group:

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- a bank guarantee, enforceable on first request, given by a leading Portuguese bank for Euro 500 thousand, with a duration of 7 years that expires on 21/10/2009;
- a personal guarantee given by the previous shareholders for Euro 800 thousand, with a duration of 7 years that expires on 21/10/2009.

  Both the above guarantees were extended during the year to 31/12/2014. During the first half of 2012 the bank guarantee was reduced to Euro 120 thousand.

- In the case of acquiring 90% of Montanari Francesco S.r.l., the seller has given a surety against the usual warranties, which will expire on 30 September 2012, for a value of Euro 1 million, which reduces by 20% every year.

2.b. Intangible assets

"Intangible assets" at 30 June 2012 amount to Euro 2,578 thousand, which is lower than the figure of Euro 2,697 thousand reported at 31 December 2011.

The changes during the period are reported in an attachment.

2.c. Property, plant and equipment

The net book value of property, plant and equipment at the end of the period is as follows:

	30/6/2012	31/12/2011	30/6/2011
Land and buildings	26,156	26,569	26,707
Plant and machinery	53,476	50,580	45,798
Equipment and other assets	14,543	13,563	13,087
Construction in progress	1,540	1,509	2,104
	95,715	**92,221**	**87,696**

Changes during the period can be summarised as follows:

Balance at 1/1/2012	**92,221**
Additions	11,441
Retirements	(174)
Depreciation charge	(7,880)
Earthquake damage	(300)
Exchange differences on foreign subsidiaries	407
Balance at 30/6/2012	**95,715**

The changes during the period are reported in an attachment.

Investment in property, plant and equipment during the period of some Euro 11.4 million includes Euro 3.8 million for implementations at the Group's Italian factories, Euro 0.6 million in expenditure on the Portuguese factories and Euro 7.0 million in expenditure on the US factory.

Investments in 2012 included the installation of a second porcelain gres production line at the Lawrenceburg plant of the subsidiary Florida Tile; this investment has enhanced the Group's competitiveness in the United States, a market where an excellent growth trend is being achieved.

"Land and buildings" are represented mainly by the buildings shown in the financial statements of the Portuguese subsidiary Gres Panaria Portugal S.A.

Following the property spin-off in 2004, the buildings in which Panariagroup Industrie Ceramiche S.p.A. conducts its business are rented, being owned by Immobiliare Gemma S.r.l. (a related party).

Florida Tile Inc. has been operating out of the Lawrenceburg (Kentucky) plant, which it uses under an operating lease that expires in 2030; the annual rent is USD 1,575 thousand, without any purchase option at the end of the contract.

2.d. Financial assets

This caption comprises:

	30/6/2012	31/12/2011	30/6/2011
Industrial Revenue Bond	10,085	10,467	9,372
Other	9	6	5
	10,094	**10,473**	**9,377**

The “Industrial Revenue Bond” relates to a 20-year bond (IRB) issued by the County of Anderson, Kentucky (“County”).

This forms part of a wider package of tax incentives granted by the County as a contribution towards the considerable investment we have made in the Lawrenceburg factory, which is operated by the subsidiary Florida Tile Inc. (defined by contract as the "Porcelain Project".

In particular, the purpose of the IRB is to save property tax on the newly-acquired plant, as part of a transaction involving two distinct and exactly matching operations:

- the subscription by Panariagroup USA to a twenty-year bond, issued by the County at an interest rate linked to LIBOR;
- the purchase of ownership of the "Porcelain Project" by the County and grant of a twenty-year finance lease at the same rate as the Bond to Florida Tile Inc, with a redemption value of USD 1 at the end.

The repayment plans and conditions of the two transactions (Bond and Finance Lease) are identical and the related cash transfers (lease payments by Florida Tile Inc. to the County and reimbursement of Bond by the County to Panariagroup USA) will be made directly between the subsidiaries Florida Tile Inc. and Panariagroup USA without going through the County.

The entire transaction has a neutral cash-flow impact on the consolidated financial statements, since the financial asset represented by the Bond exactly matches the financial liability represented by the Finance Lease; however, the consolidated financial statements do benefit in terms of income since this transaction means that there is no property tax payable on the "Porcelain Project".

The "Porcelain Project's" formal transfer of ownership to the County does not involve any restriction on the use, modification, management or retirement of the plant acquired.

The decrease in value of the Industrial Revenue Bond compared with 31 December 2011 is due to repayment of the annual instalment of USD 850 thousand (Euro 654 thousand), partially offset by an exchange gain of Euro 272 thousand arising from translation at the period end exchange rate.

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2.e Deferred tax assets

There was a net deferred tax asset at 30 June 2012 and 31 December 2011, whereas at the end of the first half of 2011 there was a net deferred tax liability.

	30/6/2012	31/12/2011	30/6/2011
Deferred tax liabilities:			
- revaluation of acquired company buildings to fair value	(3,158)	(3,298)	(3,375)
- valuation of severance indemnities according to IFRS	(243)	(253)	(251)
- valuation of agents' termination indemnities according to IFRS	(545)	(542)	(480)
- valuation of inventories	(2,663)	(2,653)	(2,724)
- lease-back	(310)	(322)	(334)
- exchange differences on valuation	(777)	(613)	-
- accelerated depreciation	(127)	(127)	(141)
- other	(52)	(76)	(35)
Total deferred tax liabilities	**(7,875)**	**(7,884)**	**(7,340)**
Deferred tax assets:			
- taxed provisions	6,656	4,563	4,517
- carried-forward tax losses	794	773	692
- exchange differences on valuation	-	-	203
- freeing up equity investments	3,703	3,703	-
- other	265	42	64
Total deferred tax assets	**11,418**	**9,081**	**5,476**
Deferred tax liabilities	**3,543**	**1,197**	**(1,864)**

The main change compared with 30 June 2011 relates to the "freeing up of equity investments" in the second half of 2011.

The Parent Company used this option offered by Italian legislation to free up for tax purposes the portion of equity investments attributable to goodwill. This involves a payment by Panariagroup of substitute tax of 16% of the amount freed up (payments fall due from 2013 onwards), obtaining as a benefit the possibility to amortise this amount in its tax return over the following 10 years.
Panariagroup has booked this transaction according to one of the three alternative methods identified by the OIC (Italian Accounting Body), namely the "Substitute tax with recognition of deferred tax assets" method.
This method entails booking the liability for substitute tax (16% of the amount freed up) and recognising deferred tax assets for the fiscal benefit to be gained from deducting amortisation for the next 10 years; the difference between these two amounts was taken to income in 2011.

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 3,158 thousand) refer to the recognition of acquired company assets at fair value in the consolidated financial statements, net of accumulated depreciation on the acquisition date.

The deferred tax asset relating to taxed provisions has grown considerably mainly due to a significant provision of Euro 6,600 thousand for expenses estimated, but not yet incurred,

relating to the earthquake, described in more detail in paragraph 8.c. On the other hand, no deferred tax liability has been recorded in the condensed half-yearly consolidated financial statements in respect of the amounts expected to be reimbursed by insurance companies for damages caused by the earthquake, in consideration of a tax exemption for insurance claims relating to the earthquake granted under regulations issued to support those affected by the earthquake.

Deferred tax assets for "carried-forward tax losses" refer entirely to the tax losses for the year of Florida Tile Inc.
In view of the length of time allowed by US tax law for using such tax losses and considering the fact that Florida Tile Inc. forms part of the tax group together with Panariagroup USA Inc. and Lea North America LLC, Group management has decided that it was appropriate to recognise a deferred tax asset of around USD 1 million in respect of Florida Tile's tax losses, compared with a total potential tax benefit of some USD 12.8 million, including the effects of prior years. Group management has not fully recognised the deferred tax asset because of its desire to treat this subsidiary prudently from an accounting point of view, given the losses that it has run in previous years. The recoverability of this asset therefore depends on the US subsidiaries' effective ability to report a medium-term profit.

2.f. Other non-current assets

This line item comprises:

	30/6/2012	**31/12/2011**	**30/6/2011**
Guarantee deposits for utilities	187	166	170
Other	89	95	93
Total other non-current receivables	**276**	**261**	**263**
Total non-current accrued income and prepaid expenses	**-**	**-**	**-**
	276	**261**	**263**

3. CURRENT LIABILITIES

3.a. Due to banks and other sources of finance

Short-term financial payables are made up as follows:

	30/6/2012	31/12/2011	30/6/2011
Current account overdrafts	16,788	15,031	12,575
Export advances	9,002	13,710	22,007
Long-term loans	20,851	19,797	14,025
Leases	672	658	598
Other loans	126	773	1,384
	47,439	**49,969**	**50,589**

The changes in financial position during the first half of 2012, compared with the first half of 2011 and 2011, are shown in the consolidated cash flow statement contained in the earlier section with the consolidated financial statements.

The Group's total borrowing facilities granted by banks at 30 June 2012 amounted to Euro 120.3 million, of which Euro 36.0 million had been drawn down at that date.

"Long-term loans" include the current portion of nine unsecured loans obtained by the Parent Company between 2006 and 2011. These loans are discussed in more detail in the section entitled "Due to banks and other sources of finance" under non-current liabilities. It should be noted that, as a result of measures put in place to help those affected by the earthquake, mortgage loan instalments maturing in June 2012 and September 2012 have been suspended and, accordingly, now fall within the non-current portion of loans.

"Leases" of Euro 672 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

"Other loans" of Euro 126 thousand at 30 June 2012 relate to the current portion of an assisted loan for capital expenditure incurred by the Portuguese company, Gres Panaria Portugal S.A.

Like in previous years, the Group did not carry out any factoring or securitisation transactions during the first half of 2012.

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3.b. Trade payables

Changes in trade payables are as follows:

	30/6/2012	31/12/2011	30/6/2011
Trade payables	66,920	62,306	64,258

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. The increase compared to the prior year first half period end balance is due to capital expenditure incurred by the US company Florida Tile in the first half of 2012.

3.c. Due to tax authorities

This caption comprises:

	30/6/2012	31/12/2011	30/6/2011
Withholding tax	1,282	2,076	1,440
Income taxes	108	97	1,433
Recovery of State Aid	-	-	4,982
Other	299	151	274
	1,689	**2,324**	**8,129**

3.d. Other current liabilities

At 30 June 2012, these are made up of:

	30/6/2012	31/12/2011	30/6/2011
Due to social security institutions	2,640	3,584	2,818
Due to employees	7,830	5,729	7,951
Due to customers	4,986	5,056	6,186
Due to agents	9,239	9,055	9,672
Financial derivatives – negative fair value	145	140	129
Other	270	385	180
Total current payables	**25,110**	**23,949**	**26,936**
Deferred income for capital grants	64	76	55
Accrued interest expense	686	7	15
Other	371	150	359
Total current accrued expenses and deferred income	**1,121**	**233**	**429**
	26,231	**24,182**	**27,365**

The higher balance of accrued interest expense compared with prior period ends is due to the postponement of the current portion of loan instalments granted as an aid measure in favour of companies affected by the earthquake; interest accrued for the period has thus been recorded, but, contrary to what would happen under normal circumstances, has not yet been paid.

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4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	30/6/2012	31/12/2011	30/6/2011
Employee severance indemnities	**5,973**	**6,175**	**6,332**

The principal technical bases used in this calculation are as follows:

Demographic assumptions

Retirement: 100% on reaching the so-called "AGO" (Assicurazione Generale Obbligatoria) requirements

Mortality rate: demographic base IPS 55 prepared by ANIA (National Association of Insurance Companies)

Probability of termination of employment for reasons other than death (calculated on the basis of historical data for the last five years):

Age group	Probability
0-24	13.2 %
25-29	7.1 %
30-34	5.5 %
35-39	3.4 %
40-49	2.7 %
Over 50	2.4 %

Financial assumptions

The following *discount rates* have been used. In 2012, reference was made to the iBoxx Eurozone Corporate AA Index, which had already been applied at 31 December 2011.

30/6/2012: discount rate = 4.75 %
31/12/2011: discount rate = 4.75 %
30/6/2011: discount rate = 5.30 %

The *inflation rates* taken into consideration reflect the consumer price indices for the households of blue and white collar workers published by ISTAT, as these indices are used to determine the revaluation of severance indemnities. They amount to 1.90%, in line with the previous year.

The value of employee severance indemnities at the reference dates therefore comes to (in thousands of euro):

	30/6/2012	31/12/2011	30/6/2011
Present value of the obligation	5,540	5,742	5,789
Unrecognised actuarial gains (losses)	433	433	543
Book value of employee severance indemnities	**5,973**	**6,175**	**6,332**

The actuarial gains at 30 June 2012 arose after 31 December 2006 because, following the reform of severance indemnities, the actuarial losses at 31 December 2006 were all expensed to profit and loss in 2007.

Changes in the provision during the first half of 2012 were as follows:

Balance at 31/12/2011	**6,175**
Charge to the income statement	46
Portion paid out during the period	(248)
Employee severance indemnities at 30/6/2012	**5,973**

The charge to the income statement in the first half of 2012 refers only to the revaluation of severance indemnities accrued up to 31 December 2006 (booked to financial expense). This is because severance indemnities accruing as from 1 January 2007 are treated like a Defined Contribution Plan, the cost of which is charged directly to income without going through the provision.

4.b. Deferred tax liabilities

The balance at 30 June 2012 is a receivable. Reference should be made to the note on deferred tax assets (2.e) for further details.

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	30/6/2012	31/12/2011	30/6/2011
Taxation	285	285	285
Provision for agents' termination indemnities	2,497	2,788	2,849
Provision for earthquake costs	6,600	-	-
Provision for liabilities - Florida Tile	30	205	283
Other provisions	300	300	300
	9,712	**3,578**	**3,718**

The tax provision at 30 June 2012 relates to an amount provided in connection with the findings by the Portuguese authorities from a tax audit that took place in the year; the

amount accrued reflects the directors' evaluation of the likelihood that the appeal against this assessment will be accepted.

The Parent Company's tax years from 2007 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements at 30 June 2012.
On 21 February 2012, the Company was subject to a tax audit of the 2009 tax year covering direct taxes, VAT and other tax compliance. To date, this audit has been suspended as a result of the earthquake in May 2012.

The liability for agents' termination indemnities has been discounted at the following rates, which reflect the average gross yields on 10-year Italian treasury bonds:

30 June 2012	6.04%
31 December 2011	5.57%
30 June 2011	4.61%

The discount rates have been applied to a projection of expected future cash flows for agents' termination indemnities based on past payments of this kind over the last five years. For prudence sake, a maximum limit of 20 years was chosen for the period during which payments from this provision will be made, even though most of the agency network is made up of legal entities.

The "provision for earthquake costs" of Euro 6,600 thousand relates to estimated charges not yet incurred in connection with the damage caused by the earthquake in May 2012 and which was particularly devastating in Finale Emilia, where one of our production plants and an office building housing sales and administrative personnel are located.

The provision made includes a best estimate of the cost of restoring the industrial building, the office building and the damaged facilities to the state in which they were before the earthquake, while it does not include improvements that became necessary to adapt the facilities, equipment and machinery to the new anti-seismic parameters introduced for the area and that, consequently, will be capitalised.

At present, the Group does not have any outstanding disputes or litigation for which there may be remote contingent liabilities that ought to be mentioned in these notes.

4.d. Due to banks and other sources of finance

Long-term financial payables are made up as follows:

	30/6/2012	**31/12/2011**	**30/6/2011**
Long-term loans	48,911	36,348	36,881
Assisted loans	2,166	2,312	946
IRB lease	10,085	10,467	9,371
Other leases	-	-	3
	61,162	**49,127**	**47,201**

"Long-term loans" shows the non-current portion of the loans already reported in the section on “Due to banks and other sources of finance” for the current portion, and is made up of:

- Euro 5.0 million in respect of an unsecured loan taken out by the Parent Company in 2006 originally for Euro 20 million, at a floating rate linked to Euribor and maturing in 2014.
- Euro 2.0 million in respect of an unsecured loan taken out by the Parent Company in 2007 originally for Euro 10 million, at a floating rate linked to Euribor and maturing in 2013.
- Euro 16.0 million for three unsecured loans taken out by the Parent Company in 2009 at a floating rate linked to Euribor, maturing between 2014 and 2016.
- Euro 3.0 million in respect of a new unsecured loan taken out in 2010 at a floating rate linked to Euribor and maturing in 2015.
- Euro 9.4 million from two unsecured loans taken out by the parent company turned in 2011, at a variable rate linked to Euribor, maturing in 2016
- Euro 13.5 million in respect of an unsecured loan taken out in 2012 at a floating rate linked to Euribor and maturing in 2016

"Assisted loans" include:
- an interest-assisted loan of Euro 0.6 million on investments made by the Portuguese company Gres Panaria Portugal S.A.
- an interest-assisted loan of Euro 1.6 million for industrial research and development taken out by the Parent Company.

There are no guarantees in favour of the lender for any of these loans.

The "IRB finance lease" relates to the Industrial Revenue Bond operation, detailed in note "2.d Financial assets", and associated with the package of tax incentives obtained for the major investment in the Lawrenceburg factory of Florida Tile Inc. As mentioned previously in connection with the Bond, the decrease in its amount reflects the repayment of principal during 2012 and the exchange-rate effect deriving from the translation to Euro of the original amounts (denominated in dollars) using the closing rate of exchange.

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As required by IFRS 7, the following table reports the due dates envisaged by the repayment plans for the above financial payables:

	Long-term loans	Leases	IRB	Total
12 months	**20,977**	**672**	**(672)**	**20,977**
2013 – 2nd half	9,909	-	-	9,909
2014	20,374	672	(672)	20,374
2015	9,627	672	(672)	9,627
2016	7,938	672	(672)	7,938
2017	3,229	672	(672)	3,229
2018	-	672	(672)	-
2019	-	672	(672)	-
2020	-	672	(672)	-
2021	-	672	(672)	-
Beyond 10 years	-	4,709	(4,709)	-
Long-term	**51,077**	**10,085**	**(10,085)**	**51,077**
Financial payables	**72,054**	**10,757**	**(10,757)**	**72,054**

The Group does not have any negative pledges or covenants on debt positions outstanding at the end of the half-year.

4.e. Other non-current liabilities

At 30 June 2012, these are made up of:

	30/6/2012	31/12/2011	30/6/2011
Due to suppliers beyond 12 months	741	1,465	29
Flat-rate taxes beyond 12 months	1,996	1,996	-
Accrued rent - Lawrenceburg	432	398	337
Other	184	186	172
	3,353	**4,045**	**538**

The amounts due to suppliers beyond 12 months relate mainly to the purchase of plant and machinery in prior years on extended payment terms.

The "Substitute tax due beyond 12 months" refers to the tax on the freeing-up of equity investments explained in the note on deferred tax assets.

This is the difference between the rent payments effectively made and the higher rent instalments due as calculated according to IAS. In fact, the contract provides for rent payments that increase every five years, whereas IAS 17 assumes that they are booked on a straight-line basis.

"Other" includes commitments taken by Florida Tile Inc. to carry out environmental monitoring at its own expense for the next 25 years; these have been treated to all effects as liabilities acquired as part of the acquisition.

5. EQUITY

Equity consists of:

	30/6/2012	31/12/2011	30/6/2011
Share capital	22,678	22,678	22,678
Share premium reserve	60,783	60,783	60,783
Revaluation reserves	4,493	4,493	4,493
Legal reserve	3,581	3,472	3,472
Translation reserve	1,609	395	(3,983)
Other reserves and retained earnings	61,323	59,881	59,881
Net profit (loss) for first half 2012	179	1,551	1,028
	154,646	**153,253**	**148,352**

The changes in equity have already been reported in the table forming part of the consolidated financial statements.

To date, no stock option plans have been granted.

The main items making up equity are discussed below.

Share capital

The share capital subscribed and paid in consists of 45,355,291 shares of par value of Euro 0.50 each and refers to the Parent Company Panariagroup Industrie Ceramiche S.p.A.

Share premium reserve

The share premium reserve represents the excess of the issue price for shares with respect to their par value and includes:

- Euro 5,069 thousand in relation to the share capital increase carried out in 2000 by Panaria Industrie Ceramiche S.p.A.;
- Euro 53,113 thousand for the increase in capital carried out in 2004 through the public offering on the stock market;
- Euro 2,601 thousand for the unutilised reserve for additional shares related to the portion of equity reserved for servicing the bonus share at the time the Parent Company was listed.

Revaluation reserves

The revaluation reserve amounting to Euro 4,493 thousand includes Euro 4,103 thousand for the revaluation of assets at 31 December 2000 under Law 342 of 21.11.2000 and Euro 390 thousand for revaluations carried out in application of previous laws. No deferred taxes have been provided on these reserves, which are subject to the deferral of taxation,

since no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

Legal reserve

The legal reserve reported in the consolidated financial statements reflects the corresponding reserve recorded by Panariagroup Industrie Ceramiche S.p.A. It increased during the period thanks to the allocation of 5% from the 2011 net profit.

Translation reserve

This reserve contains the exchange differences that arose on translation into euro of the financial statements of Florida Tile Inc., Panariagroup USA Inc. and Lea North America LLC, originally expressed in US dollars.

Other reserves and retained earnings

The other equity reserves are made up as follows:

	30/6/2012	31/12/2011	30/6/2011
Extraordinary reserve	43,260	41,192	41,192
Payments on capital account	1,077	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)	(1,614)
Retained earnings and other reserves	18,600	19,226	19,226
	61,323	**59,881**	**59,881**

The *extraordinary reserve* has increased by Euro 2,068 thousand following the allocation of part of the Parent Company's 2011 net profit.

The reserve for "*Payments on capital account*" relates to payments made by shareholders in prior years and not tied to future capital increases.

Treasury shares

At 30 June 2012, there are 432,234 treasury shares held in portfolio at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

As stated in the section on Accounting Principles, these have been treated as a deduction from equity.

The treasury shares currently held were purchased in accordance with a resolution passed by the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 26 April 2005. This authority was then renewed at the Shareholders' Meetings that approved subsequent years' financial statements.

"Retained earnings (accumulated losses) and other reserves" of Euro 18,600 thousand refer principally to profits made by subsidiaries after the preparation of the first set of consolidated financial statements and not distributed. No deferred taxes have been provided on these reserves, as no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as of 30 June 2012:

- an interest rate swap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on a loan obtained in 2006;
- a cap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on an outstanding loan obtained during 2010;
- an interest rate swap with a notional underlying principal of Euro 3,250 thousand to hedge interest rates on an outstanding loan obtained in the first half of 2012.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 145 thousand. The adjustment to fair value at 30 June 2012 has involved recording a loss of Euro 5 thousand in the income statement for the period

GUARANTEES

At 30 June 2012 no guarantees have been given in favour of entities outside of the scope of consolidation.

The guarantees received from third parties are specifically disclosed in the notes on the balance sheet captions to which such guarantees refer.

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

The Group's sales revenues are analysed by geographical area below:

	30/6/2012	*30/6/2011*
Italy	40,416	47,140
Abroad	110,657	107,738
(Customer rebates)	(2,518)	(3,032)
	148,555	**151,846**

Sales revenues have decreased by around 2.2%, from Euro 151,846 thousand at 30 June 2011 to Euro 148,555 thousand at 30 June 2012 (-3.3 million euro).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	30/6/2012	*30/6/2011*	**Change**
Expense recoveries (displays, transport)	1,806	1,573	233
Gains on the sale of property	22	160	-138
Out-of-period income	157	194	-37
Compensation for damages other than those deriving from the earthquake	10	17	-7
Grants	64	55	9
Energy income	610	469	141
Capitalisation of internal costs	173	-	173
Other	256	271	-15
	3,098	**2,739**	**359**
% of Value of Production	***2.1%***	***1.7%***	**+0.4%**

"Expense recoveries" include transport and sample costs recharged by Florida Tile Inc. to its customers.

"Energy income" includes revenues related to the Parent Company's membership of consortiums that collect and make available gas storage and the availability of the associates' energy burden and income from the remuneration of electricity produced by their own photovoltaic systems.

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Grants relate to the current portion of contributions received for research and development of an industrial nature.

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	30/6/2012	% of V.o.P.	30/6/2011	% of V.o.P.
Raw materials	20,601	13.8%	21,363	13.6%
Finished products	13,229	8.8%	15,572	9.9%
Packaging	5,172	3.5%	5,487	3.5%
Price lists/Catalogues	683	0.5%	712	0.5%
Other	64	0.0%	170	0.1%
	39,749	**26.6%**	**43,304**	**27.6%**

7.b. Services, leases and rentals

"Services, leases and rentals" are made up as follows:

	30/6/2012	% of V.o.P.	30/6/2011	% of V.o.P.
Property rental	4,428	3.0%	4,333	2.8%
Rent of other fixed assets	1,181	0.8%	1,219	0.8%
Commissions	8,334	5.6%	8,892	5.7%
Utilities	15,752	10.5%	14,912	9.5%
Commercial expenses and advertising	3,955	2.6%	4,109	2.6%
Sub-contract work	6,272	4.2%	7,244	4.6%
Maintenance	3,849	2.6%	5,180	3.3%
Transportation	8,448	5.6%	6,931	4.4%
Industrial services	2,871	1.9%	2,931	1.9%
Directors' and statutory auditors' fees	643	0.4%	598	0.4%
Consulting fees	1,750	1.2%	1,905	1.2%
Insurance	578	0.4%	518	0.3%
Other	3,124	2.1%	2,685	1.7%
	61,185	**40.9%**	**61,457**	**39.2%**

"Property rental" mainly includes:

- rents of Euro 2,621 thousand that Panariagroup Industrie Ceramiche S.p.A. pays to Immobiliare Gemma S.p.A (a related party) for use of the land and buildings in which the company carries on its business. The rent contract covers a contractual period of eight years (with tacit renewal on the first expiry for another eight years), for an annual rent initially set at Euro 4,500 thousand, revalued each year according to ISTAT statistics. The economic value of the rent is based on a specific appraisal prepared by an independent expert, which supports the alignment to market values.

- the rents that Florida Tile Inc. pays for the land and building of its plant in Lawrenceburg, its head office and the premises used as branches for the retail sale of finished products amount in total to Euro 1,674 thousand.

7.c. Personnel costs

Personnel costs have increased from Euro 36,260 thousand at 30 June 2011 (23.3% of value of production) to Euro 35,768 thousand at 30 June 2012 (23.39% of value of production).

Personnel costs can be broken down as follows:

	30/6/2012	30/6/2011
Wages and salaries	27,016	26,968
Social security contributions	7,423	7,896
Severance indemnities and other funds	1,034	1,027
Other personnel costs	295	369
	35,768	**36,260**

The average number of people employed by the Group during the year was as follows:

	30/6/2012	30/6/2011
Managers	31	30
Supervisors and white collar workers	645	639
Blue collar and foremen	961	984
	1,637	**1,653**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	30/6/2012	% of V.o.P.	30/6/2011	% of V.o.P.
Out-of-period expenses	164	0.1%	206	0.1%
Gifts	10	0.0%	32	0.0%
Trade association fees	49	0.0%	52	0.0%
Losses on disposals	57	0.0%	193	0.1%
Indirect taxes	441	0.4%	522	0.3%
Office materials	317	0.2%	339	0.2%
Other	278	0.2%	257	0.2%
	1,316	0.9%	**1,601**	1.0%

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8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Depreciation and amortisation are substantially in line with the first half of 2011, going from Euro 8,250 thousand in the period to 30 June 2011 to Euro 8,351 thousand in the period ended 30 June 2012.

8.b. Provisions and writedowns

"Provisions and writedowns" of Euro 1,008 thousand include a provision of Euro 176 thousand for agents' termination indemnities and a provision for doubtful receivables of Euro 1,332 thousand, while Euro 500 thousand of the inventory provision was utilised due to a key commitment to dispose of slow-moving inventory during the period.

8.c. Charges for earthquake reconstruction

This caption comprises:

	30/6/2012
Costs already incurred in the first half of 2012	1,600
Estimate of further costs expected	6,600
Insurance reimbursements considered certain	(5,200)
	3,000

The costs already incurred relate to the work already done for the resumption of operations at the plant in Finale Emilia; works included demolition, restoration and safety measures at the site carried out using both internal personnel and external suppliers. They also include costs relating to inventories (raw materials, semi-finished products, consumables and finished products) destroyed as a result of the seismic phenomenon.

The estimate of expected expenses of Euro 6.6 million has been made on the basis of the work programme for the restoration of the entire site to the condition it was in before the earthquake, both in relation to the office building, currently unused and to the industrial building and machinery and includes the cost of materials and work to be carried out both by external suppliers and the Company's personnel.

It does not include improvements that have become necessary to adapt the facilities, equipment and machinery to the new anti-seismic parameters introduced for the area and which will be capitalised.

Similarly, it does not include indirect costs resulting from the earthquake, such as lost sales and lost production.

To cover these costs, a probable insurance reimbursement of Euro 5,200 thousand has been ascertained; this amount has been determined in accordance with paragraph 53 of IAS 37, which only permits the recognition of an amount deemed to be "virtually certain."
Accordingly, despite the insurance cover being higher and potentially sufficient to cover all direct costs caused by the earthquake, recognition has been only been made of the part that, to date, has already been confirmed as a minimum payout by the insurance

company, based on analyses and inspections carried out so far and in accordance with the contractual provisions contained in the insurance policy.

The tax effect of these net charges is recorded in the income statement under "Income taxes" and relates to the deductibility of the expenses already incurred and of the estimated costs. No tax effect was accounted for on the portion of the related expected insurance compensation recognised in the condensed half-yearly consolidated financial statements, in consideration of the tax exemption for insurance claims related to the earthquake granted under regulations issued to support those affected by the earthquake.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	30/6/2012	30/6/2011
Interest on short-term loans	(360)	(240)
Interest expense on medium/long-term loans	(862)	(691)
Financial expense on severance indemnity liability	(127)	(150)
Fair value losses on derivatives	(5)	-
Other	(619)	(762)
Total financial expense	**(1,973)**	**(1,843)**
Bank interest income	6	1
Interest on receivables	46	39
Fair value gains on derivatives	-	89
Other	62	-
Total financial income	**114**	**129**
TOTAL FINANCIAL INCOME AND EXPENSE	**(1,859)**	**(1,714)**
% of Value of Production	*-1.2%*	*-1.1%*
Exchange losses	(3,041)	(693)
Exchange gains	3,390	324
TOTAL EXCHANGE GAINS AND LOSSES	**349**	**(369)**
% of Value of Production	*+0.2%*	*-0.2%*
Financial losses on discounting	-	(4)
Financial gains on discounting	8	-
DISCOUNTING GAINS (LOSSES)	**8**	**(4)**
% of Value of Production	*+0.0%*	*-0.0%*
Total financial income (expense)	**(1,502)**	**(2,087)**
% of Value of Production	**-1.0%**	**-1.3%**

"Other" mostly refers to financial expenses associated with early payment discounts given to customers.

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Financial income and expense - Sensitivity analysis

As previously stated in the section on “Financial risk”, the Group is exposed to certain types of market risk, such as interest rate risk and exchange rate risk.
The following is a sensitivity analysis to show the impact on the first half 2012 financial statements (pre-tax profit) in the event of more favourable or unfavourable interest and exchange rates.

Interest rates

Interest Rate	Higher (Lower) Profits €mn
- 2.00%	+0.8
- 1.00%	+0.4
- 0.50%	+0.2
+ 0.50%	-0.2
+ 1.00%	-0.4
+ 2.00%	-0.8

Exchange rates (Eur/Usd)

Exchange Rate	Higher (Lower) Profits €mn
1.20	+0.9
1.30	-0.8
1.40	-2.2
1.50	-3.5
1.60	-4.5

* Assumption of a constant rate for the entire half-year.

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10. INCOME TAXES

10.a Income taxes

Income taxes for the half-year have generated income of Euro 1,953 thousand against a pre-tax loss of Euro 1,774 thousand.
The following is a reconciliation between theoretical and actual taxation:

Reconciliation between the theoretical tax rate and the actual tax rate

(in thousands of Euro)

THEORETICAL TAX RATE - ITALIAN TAXES

			Theoretical tax	Theoretical tax rate
A	Pre-tax profit (loss)	(2,512)		
B	Personnel costs	22,405		
C	Financial expense (net)	80		
A	Theoretical taxable income for IRES purpose	(2,512)	(691)	**27.50%**
A+B+C	Theoretical taxable income for IRAP purpose	19,973	779	**3.90%**
CF1	THEORETICAL TAX CHARGE - ITALIAN TAXES		**88**	**-3.51%**

THEORETICAL TAX RATE - PORTUGUESE TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	55	15	**26.50%**
CF2	THEORETICAL TAX CHARGE - PORTUGUESE TAXES		**15**	**26.50%**

THEORETICAL TAX RATE - US TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	1,821	710	**39.00%**
CF3	THEORETICAL TAX CHARGE - US TAXES		**710**	**39.00%**

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	THEORETICAL TAX CHARGE - TOTAL	**813**	**-45.82%**
	No recognition of deferred tax assets for US taxes	**(710)**	**40.03%**
	Tax exemption for earthquake insurance reimbursements	**(1,633)**	**-6.68%**
	Tax effect on consolidation adjustments	**(314)**	**17.70%**
	Difference	**(109)**	**6.14%**
	ACTUAL tax charge	**(1,953)**	**110.09%**

The main factor behind the reduction of the tax burden is the tax exemption for insurance claims relating to the earthquake and booked in the financial statements; this relates to a concession granted under legislation issued to aid those hit by the earthquake.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share is disclosed at the foot of the income statement: € 0.034 per share at 30 June 2012 (€ 0.023 at 30 June 2011).

Basic and diluted earnings (losses) per share are the same because there are no diluting factors.

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

There have been no transactions/events during the period ended 30 June 2011 that fall under the scope of Consob Communication DEM/6064293 of 28 July 2006. The Company's management has interpreted "significant non-recurring events and transactions" to mean those falling outside the normal course of business.
As already mentioned in the Introduction, the impact on results of the earthquake that struck Emilia Romagna in May 2012 (gross of the related tax effect) has been recorded in a specific income statement caption "Net charges for earthquake reconstruction", for a better understanding of the Group's results in accordance with the requirements of "IAS 1 Presentation of Financial Statements".

POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

There have been no transactions/events during the period ended 30 June 2011 that fall under the scope of Consob Communication DEM/6064293 of 28 July 2006. As specified in this Communication "atypical and/or unusual transactions mean those transactions which by virtue of their significance/size, nature of the counterparties, purpose of the transaction, method of determining the transfer price and timing (proximity to period end) may give rise to doubts concerning the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of company assets, and the protection of minority shareholders".

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RELATED PARTY TRANSACTIONS

Panariagroup's related parties are:

Finpanaria S.p.A.– Ultimate Parent Company
Immobiliare Gemma S.p.A. – an affiliated company (controlled by Finpanaria)

INCOME STATEMENT
(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Rental income	4	-	**4**
Services	-	-	**-**
Total revenues	**4**	**-**	**4**

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	2,621	**2,621**
Commission for guarantees given	-	-	**-**
Services	31	-	**31**
Total costs	**31**	**2,621**	**2,652**

Rental expense refers to the rents paid for all of the buildings used by Panariagroup's production and logistics activities.
The **consulting fees** paid to Finpanaria S.p.A. are for administrative and organisational services.

In accordance with Consob Communication DEM/6064293, the impact of related party transactions on the Company's results and cash flows is shown below:

	% of Value of Production	% of total revenues	% of pre-tax loss	% of operating cash flow*
Revenues	0.00%	0.00%	0.22%	1.72%
Costs	1.77%	1.78%	149.15%	1138.20%

* before changes in working capital

BALANCE SHEET
(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	-	-	-
Payables	31	-	31
Due from (to) tax authorities	489	-	489
Net receivable (payable)	**520**	**-**	**520**

Following the decision to file for tax on a group basis, credits for income tax (IRES) of Euro 489 thousand have been included in receivables from Finpanaria, which as the head of the tax group is responsible for financial dealings with the tax authorities.
All related party transactions are carried out on an arm's length basis.

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

In this connection, we would call your attention to the fact that a procedure on related-party transactions is now in place in accordance with the Consob Regulation adopted with Resolution 17221 of 12 March 2010 and subsequent amendments.

ATTACHMENTS

The following attachments contain additional information to that provided in the explanatory notes, of which they form an integral part:

- Statement of changes in intangible assets and goodwill from 1 January 2012 to 30 June 2012
- Statement of changes in property, plant and equipment from 1 January 2012 to 30 June 2012
- Statement of changes in financial position
- Directors and Officers
- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments

Sassuolo, October 4, 2012

The Chairman of the Board of Directors

Emilio Mussini

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2012 to 30 June 2012

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Panariagroup - Consolidated financial statements

Statement of changes in intangible assets and goodwill
from 1/1/2012 to 30/06/2012
(in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2012	**2,697**	**-**	**2,697**	**12,789**
Increases, net	314		314	-
Decreases, net			-	-
Amortisation	(471)		(471)	-
Reclassifications			-	-
Exchange differences on foreign subsidia	38		38	-
Balance at 30/06/2012	**2,578**	**-**	**2,578**	**12,789**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2012 to 30 June 2012

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1/1/2012 to 30/06/2012
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2012	**26,569**	**50,580**	**13,563**	**1,509**	**92,221**
Increases, net	46	8,257	1,989	1,149	11,441
Net decreases and impairment		(141)	(33)		(174)
Depreciation	(512)	(5,815)	(1,553)		(7,880)
Expenses for earthquake reconstruction		(300)			(300)
Reclassifications	53	643	447	(1,143)	-
Exchange differences on foreign subsidiaries		252	130	25	407
Balance at 30/06/2012	**26,156**	**53,476**	**14,543**	**1,540**	**95,715**

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in financial position

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

Details of net financial position are provided in accordance with Consob Communication DEM/6064293 of 28 July 2006:

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

NET FINANCIAL POSITION
(THOUSANDS OF EURO)

		Rif.	30/06/2012	31/12/2011	30/06/2011
	Securities	1.d	(672)	(654)	(585)
A	Cash and cash equvalents	1.e.	(2,388)	(3,101)	(5,078)
	Short-term financial assets		**(3,060)**	**(3,755)**	**(5,663)**
	Securities	2.d.	(10,085)	(10,467)	(9,372)
	Long-term financial assets		**(10,085)**	**(10,467)**	**(9,372)**
B	Due to banks		25,916	29,514	35,966
	Current portion of long-term loans		20,851	19,797	14,025
	Leases		672	658	598
	Short-term financial indebtedness	3.a.	**47,439**	**49,969**	**50,589**
	Non-current portion of long-term loans		51,077	38,660	37,827
	Due to bondholders		0	0	0
	Leases		10,085	10,467	9,374
	Long-term financial indebtedness	4.d.	**61,162**	**49,127**	**47,201**
	Net financial indebtedness		**95,456**	**84,874**	**82,755**
A+B	**Net short-term financial indebtedness**		**23,528**	**26,413**	**30,888**

Net short-term indebtedness includes cash and cash equivalents net of short-terms payables to banks, excluding the current portion of long-terms loans and leases, as already mentioned in the statement of cash flows.

The Group does not have any negative pledges or covenants on debt positions outstanding at the end of the half-year.

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

Board of Directors

Name	Office	Powers
Emilio Mussini	Chairman of the Board	Ordinary administration of Panariagroup S.p.A. and ordinary administration of the Lea Division
Giuliano Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Giovanna Mussini	Deputy Chairman of the Board	Ordinary administration of Panariagroup S.p.A. acting as deputy to the Chairman
Andrea Mussini	Managing Director	Ordinary administration of the Fiordo Division
Giuseppe Mussini	Managing Director	Ordinary administration of the Panaria Division
Paolo Mussini	Managing Director	Ordinary administration of the Cotto d'Este Division
Giuliano Pini	Managing Director	Ordinary administration of Panariagroup S.p.A.
Marco Mussini	Director	Chairman of Gres Panaria Portugal
Enrico Palandri	Director	Independent non-executive
Alessandro Iori	Director	Independent non-executive
Paolo Onofri	Director	Independent non-executive

Powers of extraordinary administration are held exclusively by the Board od Directors in its entirety.

The board of of Directors' term in office expires at the AGM that approves the 2013 financial statements.

Board of Statutory Auditors

Name	Office
Giovanni Ascari	Chairman of the Board of Statutory Auditors
Vittorio Pincelli	Standing Auditor
Stefano Premoli Trovati	Standing Auditor
Corrado Cavallini	Alternate Auditor
Massimiliano Stradi	Alternate Auditor

Compensation Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Internal Control Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

Deloitte & Touche S.p.A.

PANARIA group
INDUSTRIE CERAMICHE S.P.A.

EXPLANATORY NOTES - ATTACHMENT 5

- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

ATTACHMENT 3C-*ter*

Certification of the condensed half-yearly consolidated financial statements in accordance with art. 81-terof Consob Regulation 11971 of 14 May 1999 and subsequent amendments

1.The undersigned Paolo Mussini, Andrea Mussini, Emilio Mussini, Giuseppe Mussini, Giuliano Pini, as Managing Directors, and Damiano Quarta, as Financial Reporting Manager, of Panariagroup Industrie Ceramiche S.p.A. certify, taking into account the provisions of art. 154-bis, paras 3 and 4 of Legislative Decree 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the firm and
- the effective application

of the administrative and accounting procedures for the formation of the condensed half-yearly consolidated financial statements during the period ended 30 June 2012.

2. No matters of particular importance in this regard arose during the period.

3.We also certify that:

3.1the consolidated financial statements:

a) have been prepared under the applicable international accounting standards endorsed by the European Union, pursuant to EC Regulation no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

b) agree with the balances shown in the books of account and accounting entries;

c) give a true and fair view of the equity, economic and financial position of the Issuer and all companies included in the consolidation.

3.2 The interim report on operations includes a reliable analysis of performance and the results of operations, and of the general situation of the Issuer and the companies included within the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Sassuolo, October 4, 2012

Managing Directors

Paolo Mussini
Andrea Mussini
Emilio Mussini
Giuseppe Mussini
Giuliano Pini

Financial Reporting Manager

Damiano Quarta

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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

(in thousands of euro)	30/06/2012	
A - OPERATIONS		
Net profit of the year	179	A
Depreciation and amortisation	8,351	B
Deferred tax liabilities (assets)	(2,346)	C
Net change in tax provision for "state aid"	-	D
Net change in provisions	1,796	E
Cash flow (absorption) of operations prior to changes in working capital	*7,980*	
(Increase)/decrease in trade receivables	(10,129)	
(Increase)/decrease in inventories	(667)	
Increase/(decrease) in trade payables	4,614	
Net change in other assets/liabilities	(1,566)	
Cash flow (absorption) from operations due to changes in working capital	*(7,748)*	F
Total (A) Cash flow from operations	**232**	
B - INVESTMENT ACTIVITY		
Net investment in property, plant and equipment and intangible assets	(11,581)	H
Net investment in financial assets	(3)	J
Exchange difference on property, plant and equipment and intangible assets	(445)	K
Total (B) Cash flow (absorption) from investment activity	**(12,029)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
Net change in loans	13,468	
Total (C) Cash flow (absorption) from financing activities	**13,468**	
Opening net cash (indebtedness)	**(26,413)**	
Change in the translation reserve	**1,214**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**1,671**	
Closing net cash (indebtedness)	**(23,528)**	(X)

Summary of cash flows
(in thousands of Euro)

	41,090	
Financial position - opening balance	**(84,874)**	
Net profit for the period	179	A
Depreciation and amortisation	8,351	B
Net change in other provisions	(550)	C+E
Self-financing	**7,980**	
Change in net working capital	(7,748)	F
Dividends	0	G
Net investments	(11,584)	H +J
Reimbursement of tax benefit "State Aid"	0	D
Other changes	770	M + N + K
Financial position - closing balance	**(95,456)**	(Z)