



CONSOLIDATED ANNUAL REPORT 2010

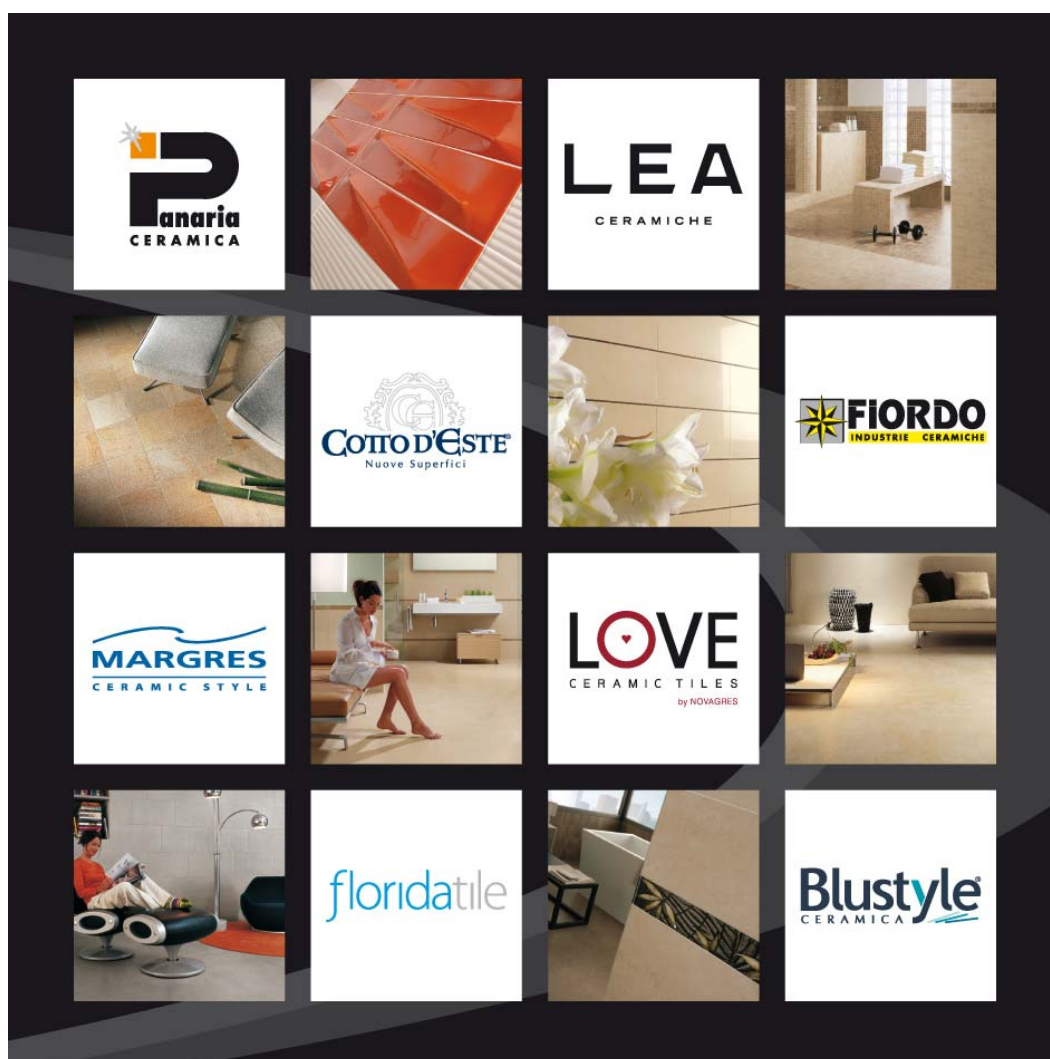


Table of Contents:

- INDEPENDENT AUDITORS' REPORT
- DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
- CONSOLIDATED FINANCIAL STATEMENTS
- EXPLANATORY NOTES
- ATTACHMENTS

AUDITORS' REPORT PURSUANT TO ART. 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of Panariagroup Industrie Ceramiche S.p.A.

1. We have audited the consolidated financial statements of Panariagroup Industrie Ceramiche S.p.A. and subsidiaries (the "Panariagroup Group"), which comprise the statement of financial position as of December 31, 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree nr. 38/2005 are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on March 19, 2010.
3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Panariagroup Group as of December 31, 2010, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree nr. 38/2005.

4. The Directors of Panariagroup Industrie Ceramiche S.p.A. are responsible for the preparation of the Directors' Report and the annual report on corporate governance, issued on Panariagroup Industrie Ceramiche S.p.A. website, under "Company Documents", in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information reported in compliance with art. 123-bis of Italian Legislative Decree nr. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the annual report on corporate governance, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the report on operations and the information reported in compliance with art. 123-bis of Italian Legislative Decree nr. 58/1998 paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) included in the annual report on corporate governance are consistent with the consolidated financial statements of the Panariagroup Group as of December 31, 2010.

DELOITTE & TOUCHE S.p.A.

Signed by
Angelo Castelli
Partner

Bologna, Italy
March 31, 2011

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

Panariagroup Industrie Ceramiche

**DIRECTORS' REPORT ON THE CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

Introduction

The consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed 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.

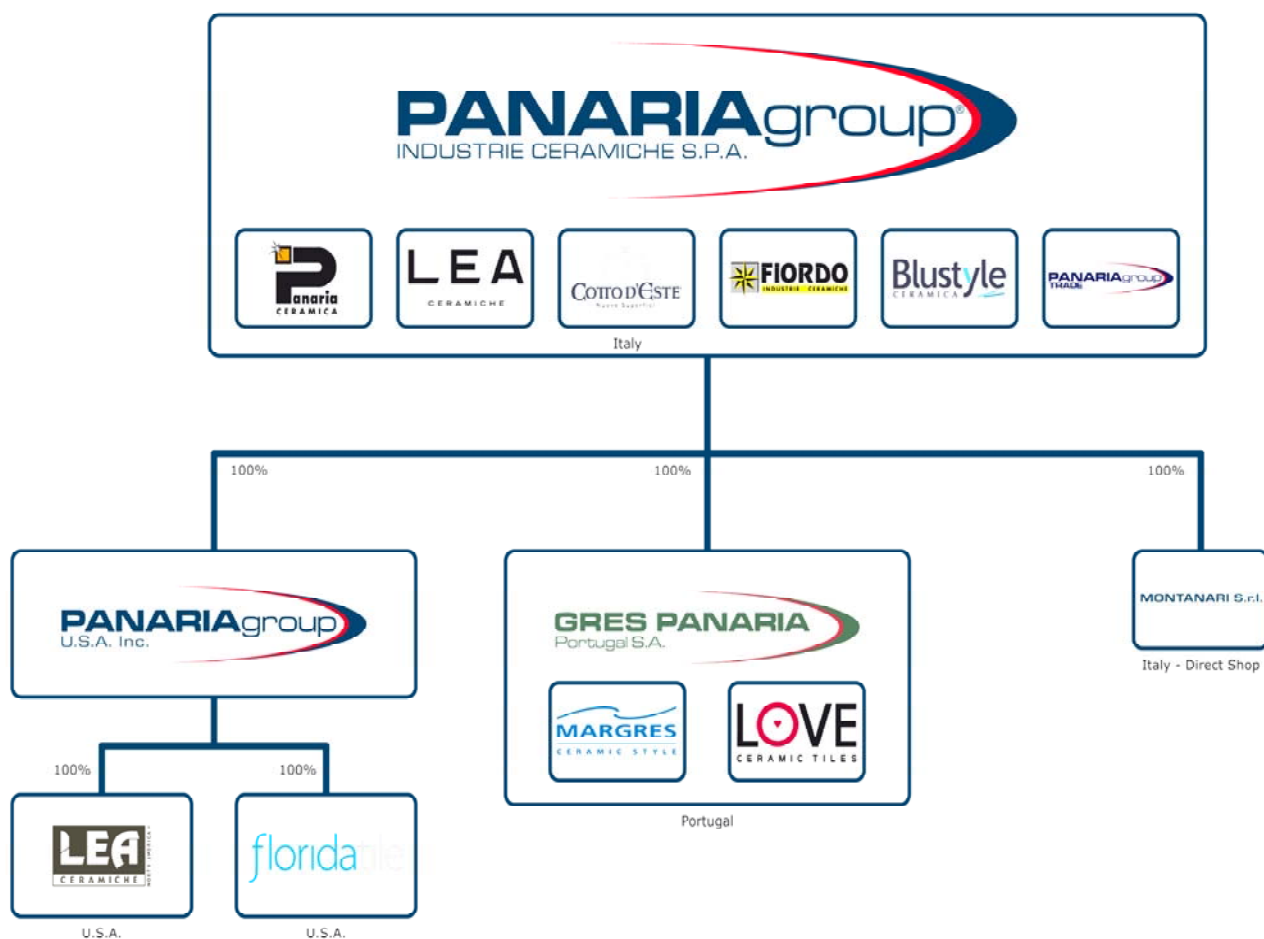
In connection with regulations on the listing of parent companies incorporated or regulated under the laws of countries not belonging to the European Union, and which have a significant impact on the consolidated financial statements, it should be noted that:

- As of 31 December 2010 three 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, 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 31 December 2010 is as follows:



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

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

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

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

Panariagroup USA Inc., based in Delaware, USA, share capital of USD 55,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

It owns 100% interests in Florida Tile Inc. and Lea North America LLC.

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

Lea North America LLC., based in Delaware, USA, share capital of USD 20,000, wholly owned by Panariagroup USA Inc.

This company markets Lea branded products on the North American market.

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

Directors and Officers

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	Milano, 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.

Directors' Report on the 2010 Consolidated Financial Statements

Results and significant events in 2010

Results

Shareholders,

Because of this phase of the economic cycle, which continues to be unfavourable, in 2010 the construction industry in most industrialised nations turned in a negative trend for the third year running, even if it was less emphatic than the previous year. In Europe, restrictive budget policies have had a drastic impact on infrastructure investments, making the deep crisis in the labour market even worse, with a consequent decline in consumer spending as well.

Patterns have been different in emerging nations, especially in Asia.

Considering the fact that our Group's production and commercial activities are concentrated principally in industrialised nations, to mitigate the repercussions of the economic crisis in these areas, our main efforts in 2010 were again to protect market shares, hold down costs and to reduce debt. These measures did reinforce our capital structure and in particular the financial and allowed carrying out substantial strategic investments.

- Consolidated net revenues from sales came to 285.2 million euro, in line with 2009.
- The gross operating profit is up by 33.84% on 2009 (+7.1 million euro), coming in at 28.3 million euro.
- The net operating profit is 6.5 million euro, well up on the figure of 0.2 million euro in 2009.
- The consolidated net profit amounts to 1.4 million euro (versus a consolidated loss of 4.6 million euro at 31 December 2009).
- Net financial indebtedness fell by 8.2 million euro to 78.6 million euro (86.8 million euro in 2009).

Significant events

As regards changes in the Group's organisational structure, during the first half of 2010 we

set up a new commercial unit called Panariagroup Trade. It will be responsible for markets in Asia and the Middle East, areas that have the best growth potential over the coming years.

This organisation has not involved any additional costs for the Group as it is the result of aggregating as rationally as possible the various commercial structures that were already operating in these areas at individual brand level. Joint coordination of these structures and the chance to offer our complete range of products under a single sales network ought to make it possible for us to fully exploit any commercial opportunities in the markets concerned.

In 2010, Panariagroup continued to produce successfully its line of thin and large format ceramic plates at the Fiorano Modenese plant. This plant, which was inaugurated during the last quarter of 2009, is considered strategic for the Group given the considerable success of this type of product, demonstrated by the increase in sales volumes. The success obtained by this type of product is due to its technical characteristics of greater lightness, strength and versatility, guaranteed by the use of an innovative technology that allows the production of ceramic tiles very large (up to 1m to 3m) with a thickness very thin (3mm). Also in the production process and transportation, the laminate tile uses natural resources (raw materials, energy) reduced by up to one third compared to traditional porcelain, thus demonstrating a very environmentally friendly product.

The international economy and industry trends

After a strongish recovery in the first half of 2010, the global economy saw a general slowdown in growth rates.

In this context, the world's consumption of tiles in 2010 went up by +5.5% compared with 2009, with a contraction in Western Europe and growth at varying rates in the rest of the world, led by China.

In 2010, the Italian ceramic tile industry increased its volumes: production by +4.9% and sales by +0.8% (the net of -3.5% in Italy and +2.7% abroad).

The Italian ceramics industry, which exports more than 70% of its output, still retains its world leadership in international trade in value terms, whereas it ranks second by volume.

World forecasts for the ceramics industry in 2011 are for a 5.9% increase in total volumes sold, with all continents growing thanks to a recovery on the part of Western Europe (0.8%), in addition to more positive forecasts for North America (+2.5%), for Latin America (+7.1%) and the Far East (+6.6%). For the Italian ceramic industry, expectations for the year 2011, are a substantial consolidation of volumes resulting from a production growth of 3.6% over 2010, and an expansion of sales of 1.7% (obtained by stagnation in Italy and a growth of 2.3% on foreign markets) (*source: Confindustria Ceramica*).

In this context, Panariagroup managed to consolidate its market shares in 2010. This achievement reflects the Company's positioning at the luxury, top-end of the market with a range of products that is heavily used in renovation work, as well as our consolidated ability to present products that are both technically and aesthetically innovative.

Review of the Group's 2010 results

Income statement at 31 December 2010 compared with 31 December 2009 (in thousands of euro)

YTD	31/12/2010	%	31/12/2009	%	var.
Revenues from sales and services	285,179	97.50%	284,490	105.76%	689
Changes in inventories of finished products	3,111	1.06%	(20,608)	-7.66%	23,719
Other revenues	4,210	1.44%	5,106	1.90%	(896)
Value of Production	292,500	100.00%	268,988	100.00%	23,512
Raw, ancillary and consumable materials	(76,087)	-26.01%	(67,471)	-25.08%	(8,616)
Services, leases and rentals	(115,761)	-39.58%	(108,718)	-40.42%	(7,043)
Personnel costs	(69,863)	-23.88%	(68,036)	-25.29%	(1,827)
Changes in inventories of raw materials	405	0.14%	(832)	-0.31%	1,237
Other operating expenses	(2,941)	-1.01%	(2,822)	-1.05%	(119)
Cost of production	(264,247)	-90.34%	(247,879)	-92.15%	(16,368)
Gross operating profit	28,253	9.66%	21,109	7.85%	7,144
D&A expenses	(17,402)	-5.95%	(17,139)	-6.37%	(263)
Provisions and impairments	(4,371)	-1.49%	(2,964)	-1.10%	(1,407)
Non-recurring Provisions	0	0.00%	(788)	-0.29%	788
Net operating profit	6,480	2.22%	218	0.08%	6,262
Financial income and expense	(2,058)	-0.70%	(4,732)	-1.76%	2,674
Pre-tax profit	4,422	1.51%	(4,514)	-1.68%	8,936
Income taxes	(2,978)	-1.02%	(94)	-0.03%	(2,884)
Net profit for the year	1,444	0.49%	(4,608)	-1.71%	6,052
Cash Flow	23,217	7.94%	16,283	6.05%	6,934

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

Consolidated revenues

Net revenues from sales in 2010 are substantially in line with the previous year, going from 284.5 million euro at 31 December 2009 to 285.2 million euro at 31 December 2010 (+0.7 million euro, +0.24%).

Principal markets

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

Total sales in European markets came to 121.4 million euro, which is 4.6% lower than the previous year with a decline in turnover of 5.8 million euro.

Despite good recoveries in the second half of 2010, the European markets are the ones that are suffering most the impact of the downturn, especially in the West, where the decline in sales came to 6.5 million euro (-5.6%), whereas Eastern European markets turned in growth of 1 million euro (+15.7%). The most critical situations in traditionally important countries for the Group were in Belgium (-13.9%), Holland (-18.8%) and Portugal (-6.8%), while the French and German markets remained stable.

The European market's share of total net sales comes to around 42%.

With a turnover of 83.1 million euro, the Italian market behaved in the same way as the other main Western European markets, turning in a decline in 2010 compared with 2009 of 4.8 million euro (-5.4%).

The Italian market's share of total revenues comes to around 29%.

Stagnation in property investment during the first nine months of the year, together with a stock of houses on the market that is in excess of demand, were the main reasons underlying the contraction in sales on Western European markets, Italy included.

The North American market is showing an opposite trend to Europe's: already since the end of 2009 there were interesting signs of a recovery in the main economic indicators. Overall, this area achieved a turnover of 67.5 million euro, an increase on the previous year of 8.9 million euro (15.3%).

The North American market's share of total net sales comes to around 23%.

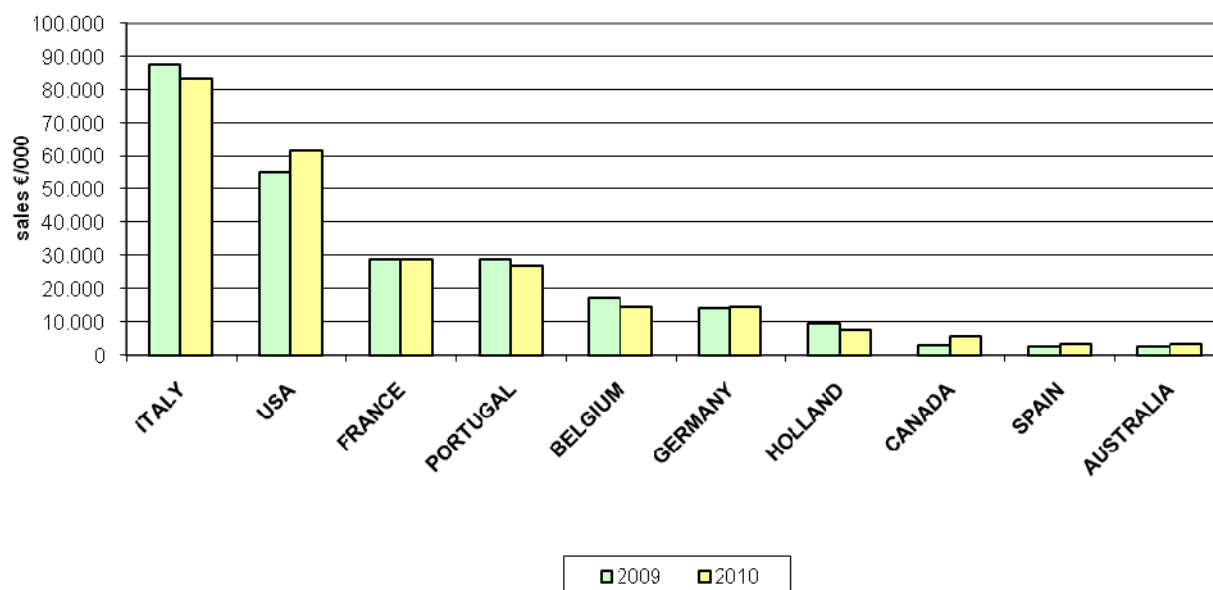
The markets overseas (Asia and Oceania) in 2010 showed an increase compared to last year of 1.8 million euro, equivalent to 10.9%.

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

Revenues by geographical area (gross of customer incentives) (amounts in thousands euro)

rk	Nation	31/12/2010	31/12/2009	var.	%
1	ITALY	83,103	87,893	(4,790)	-5.4%
2	USA	61,642	55,231	6,411	11.6%
3	FRANCE	29,061	28,826	235	0.8%
4	PORTUGAL	27,184	29,164	(1,980)	-6.8%
5	BELGIUM	14,936	17,344	(2,408)	-13.9%
6	GERMANY	14,758	14,684	74	0.5%
7	HOLLAND	7,986	9,837	(1,851)	-18.8%
8	CANADA	5,841	3,309	2,532	76.5%
9	SPAIN	3,888	3,065	823	26.9%
10	AUSTRALIA	3,769	3,076	693	22.5%
	OTHERS	37,826	37,453	373	1.0%
	TOTAL	289,994	289,882	112	0.0%

TOP 10 Markets for the Group



As regards sales by brand, it is worth spotlighting the good growth achieved by the US brand Florida Tile, whereas the other main brands turned in a slight reduction in sales.

An ample range of products and the high number of countries to which we export, together with the internationalisation of production, a high degree of product innovation and a careful approach to credit risk management, all contributed towards the improvement in profitability that was achieved in 2010.

Operating results

Gross operating profit came to 28.2 million euro, representing 9.7% of Value of production (21.1 million euro at 31 December 2009, equivalent to 7.9%), with a significant increase of 7.1 million euro.

The main factors behind this recovery in Group profitability are:

- less expensive natural gas, the price of which fell on average by 7% compared with the previous year. This advantage was partially absorbed by higher electricity prices, which went up by an average of 4%;
- a reduction in product costs, particularly fixed overheads, thanks to higher production volumes than in 2009;
- a reduction in some raw material prices, partly thanks to the fall in transport costs;
- a containment of marketing costs following an optimisation of promotional and merchandising investments.

In addition to these trends, during 2010 important savings were made by adjusting the organisational structure to the Group's current turnover. This took place by reducing personnel, principally in the US company, Florida Tile, while in Italy in-house personnel were redeployed to perform tasks that were previously outsourced.

The **net operating profit** of 6.5 million euro (0.2 million euro at 31 December 2009) has seen good growth of 6.3 million euro.

The level of depreciation and amortisation is more or less in line with 2009.

The combined effect of the reduction in interest rates, the fall in debt and the revaluation of the US dollar compared with the end of 2009 led to an improvement in financial management, reducing such costs by 56.5% compared with 2009 and saving 2.7 million euro of financial expense.

The **pre-tax result** amounts to 4.4 million euro (versus a loss of 4.5 million euro at 31 December 2009), an improvement of 8.9 million euro.

The tax burden should come to around 3.0 million euro, compared with a tax cost of 0.1 million euro in 2009.

The **consolidated net profit** for the period comes to Euro 1.4 million, a rise of Euro 6.0 million compared with the consolidated net loss of Euro 4.6 million reported at 31 December 2009.

Review of the Statement of Financial Position

Summary of the Reclassified Consolidated Statement of Financial Position

(in thousands of euro)

	31/12/2010	31/12/2009
Inventories	134,943	130,367
Accounts Receivable	83,647	87,478
Other current assets	8,095	6,699
CURRENT ASSETS	226,685	224,544
Accounts Payables	(59,947)	(57,104)
Other current liabilities	(27,145)	(28,265)
CURRENT LIABILITIES	(87,092)	(85,369)
NET WORKING CAPITAL	139,593	139,175
Goodwill	12,789	12,789
Intangible assets	3,187	3,376
Tangible assets	90,218	95,572
Equity Investments and other financial fixed assets	4	4
FIXED ASSETS	106,198	111,741
Receivables due after the following year	278	287
Provisions for termination benefits	(6,440)	(6,710)
Provisions for risks and charge and deferred taxes	(10,294)	(10,674)
Other payables due after the year	(560)	(524)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	(17,016)	(17,621)
NET CAPITAL EMPLOYED	228,775	233,295
Short term financial assets	(2,328)	(4,456)
Short term financial debt	37,190	38,179
NET SHORT TERM FINANCIAL DEBT	34,862	33,723
Mid-long term financial debt	43,740	53,058
NET FINANCIAL POSITION	78,602	86,781
Group Shareholders' Equity	150,173	146,514
SHAREHOLDERS' EQUITY	150,173	146,514
TOTAL SOURCES OF FUNDS	228,775	233,295

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

Net working capital

Net working capital at the end of 2010 is in line with 2009; worth noting that, despite the crisis, the ratio of trade receivables to sales has not deteriorated, indeed there has even been an improvement compared with last year. The increase in the level of inventories

was caused exclusively by a rise in value, not in volume. This variance is largely due to the higher valuation in euro of the stocks held by the US companies following a reinforcement of the dollar. It is also due in part to a change in the inventory mix at the Italian companies, which saw an increase in the stocks of porcelain gres laminate, which are worth more than traditional products. Our target for 2011 continues to be to lower inventory volumes, bringing them into line with effective commercial requirements.

Fixed assets

Fixed assets have decreased by 5.5 million euro compared to 2009..

This decrease was due to:

- net capital expenditure of 10.6 million euro: of this, 6.4 million euro was spent in Italy, 2.1 million euro in Portugal and 2.1 million euro in the United States.
- the higher value of fixed assets of the US sub-consolidation expressed in euro because of the dollar's appreciation since the end of 2009, for 1.3 million euro.
- depreciation and amortisation for the period of 17.4 million euro.

Net financial position

Financial cash flow

(thousands euro)

	31/12/2010	31/12/2009
Net financial position (debt) - beginning	(86,781)	(99,128)
Net Result	1,444	(4,607)
D & A	17,402	17,339
Net Variation Provisions	3,348	2,473
Internal operating Cash flow	22,194	15,205
Change in net working capital	(4,371)	14,892
Dividend distribution	0	0
Net Investments	(10,607)	(15,918)
Other movements	963	(484)
Net financial position (debt) - final	(78,602)	(86,781)

The net financial position at the end of 2010 shows a negative balance of 78.6 million euro, a distinct improvement on the start of the year of 8.2 million euro. This progress is mainly linked to the good operating results and the consequent improvement in cash flow, together with a prudent investment policy.

In 2011, the Group will continue to pursue objectives that include a reduction in net debt by lowering inventories and improvement of production and distribution processes.

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:

ASSETS	Italy	Europe	USA	Other	Total
CURRENT ASSETS	136,050	47,231	39,999	6,366	229,646
Inventories	86,189	22,187	26,567	-	134,943
Trade receivables	41,019	25,699	10,563	6,366	83,647
Due from tax authorities	5,388	325	4	-	5,717
Other current assets	3,238	(1,638)	1,411	-	3,011
Cash and cash equivalents	216	658	1,454	-	2,328
NON-CURRENT ASSETS	42,287	46,896	28,062	-	117,245
Goodwill	700	12,089	-	-	12,789
Intangible assets	1,233	317	1,637	-	3,187
Property, plant and equipment	40,184	34,490	15,544	-	90,218
Financial assets	4	-	10,769	-	10,773
Deferred tax assets	-	-	-	-	-
Other non-current assets	166	-	112	-	278
TOTAL ASSETS	178,337	94,127	68,061	6,366	346,891
	Italy	Europe	USA	Other	Total
Investments in tangible assets	5,937	1,918	2,004	-	9,859

Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2010.

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

The new product lines created in 2009, especially those presented at CERSAIE (the industry's most important trade fair) have completely new technical and aesthetic features. Above all, there is the porcelain gres laminate produced in thin (3mm) and large format (3m x 1m) plates and the new products made in collaboration with Microban. Their characteristics prevent the formation of bacteriological flora, making them particularly suitable for specialised uses (such as in hospitals, surgeries, food factories, etc.).

Transactions with parent companies, affiliates and related parties

Related-party transactions are explained in the explanatory notes to the 2010 consolidated financial statements.

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

Reconciliation of the Parent Company's equity and net results with the corresponding consolidated amounts

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net results with the corresponding consolidated amounts reported at 31 December 2010 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	137,415	2,081
a) Difference between the book value of equity investments and their value using the equity method	12,793	481
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(399)	(191)
c) Reversal of exchange losses (gains) on intercompany loan	0	(766)
d) Alignment to Group depreciation's rates	215	215
e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	67	2
f) Elimination of unrealised profits on distribution of dividends between Group companies	0	(3,960)
g) Writedown of book value of equity investments in subsidiaries	0	3,500
h) Others	82	82
Net effect of consolidation adjustments	12,758	(637)
As per consolidated financial statements	150,173	1,444

Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 23 April 2010, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2010:

Treasury shares

<i>no of Shares</i>	<i>%</i>	<i>Average book value</i>	<i>Amount</i>
432,234	0.953%	3.7347	1,614,284.94

The number of treasury shares is unchanged compared to 2009 because in 2010 was not made any sales operation.

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2010; 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, it is reported that during 2010 there were no atypical and/or unusual transactions, as defined in the explanatory notes.

Significant subsequent events

No significant events have taken place in the period subsequent to the end of December 2010.

Outlook for Group operations

The important events of recent months, such as the earthquake in Japan, the political crises in some countries of North Africa and the persistent difficulties of the Portuguese country, do not give way to high expectations of economic recovery, especially in the current context, already quite uncertain. This situation also seems to be potential pressure on prices of raw materials and energy prices, which our industry is particularly sensitive. Our commitment, therefore, will be oriented primarily in actions to improve efficiency,

through improved productivity and control of financial debt, while maintaining a major focus on innovation and to business development in emerging countries still little manned.

Report on Corporate Governance and the Ownership Structure

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

Risk management

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

GENERAL ECONOMIC RISK

The financial markets became especially volatile during 2010, 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 statement of financial position, income statement and cash flows of the Group.

CREDIT AND LIQUIDITY RISK

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

RISK OF DEPENDENCE ON KEY PERSONNEL

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

MARKET RISK

Competition risk:

The main producers of ceramic materials for floor and wall coverings worldwide, besides Italian firms, are: (i) emerging producers, who are particularly competitive price-wise and target the lower end of the market; (ii) Spanish producers, some of whom are able to compete at the higher end of the market, with average prices that are lower than those of Italian companies, due to lower production costs. Our Group believes that its positioning in the high-end luxury market segment, which is difficult for low-cost producers to enter, the renown of its trademarks, the wide range of product lines offered and the particular care and attention given to design, all represent competitive advantages over the products offered by such competitors. However, the possibility that increased competition may negatively impact the Group's economic and financial results in the medium to long term cannot be excluded.

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25% of the value of production in both 2009 and 2010. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term. However, management believes that the ability to revise price lists, given the Company's positioning in the high-end, luxury market which is less sensitive to price variations, should mitigate such effects in the medium term.

Environmental protection, personnel costs and regulations relating to the sector

The production and sale of ceramic materials for floor and wall coverings is not currently subject to specific sector regulations. On the other hand, environmental protection regulations are especially relevant given the use made of certain substances, such as lead and fluoride, particularly with regard to the treatment of such materials, emissions control and waste disposal.

The Group keenly monitors environmental and personnel risks, and any situations arising in connection with operations are treated in compliance with the regulations.

With regards to its personnel, Panariagroup protects the health and safety of its employees in compliance with current regulations governing health and safety in the workplace.

The average staff strength in 2010 amounted to 1,675 persons, representing a decrease of 66 employees compared to 2009.

CONSOB Resolution 11971 of 14 May 199

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

- ART. 79 -							
TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 31/12/2010							
Name	Investment held in	Number of shares held at the end of prior year	Number of shares purchased in 2010	Number of shares sold in 2010	Number of shares held at 31/12/2010	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	281,963	32,475		314,438	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	95,482			95,482	Direct	Property
Pini Giuliano	Panariagroup	38,468			38,468	Direct	Property
		2,880			2,880	Spouse	Property
Mussini Emilio	Panariagroup	89,436			89,436	Direct	Property
		3,080			3,080	Spouse	Property
Mussini Giuseppe	Panariagroup	56,400			56,400	Direct	Property
		30,400			30,400	Spouse	Property
Mussini Andrea	Panariagroup	114,859	186,700		301,559	Direct	Property
Mussini Marco	Panariagroup	22,510			22,510	Direct	Property
		9,340			9,340	Spouse	Property
Mussini Paolo	Panariagroup	30,000			30,000	Direct	Property
Iori Alessandro	Panariagroup	440			440	Direct	Property
		4,200			4,200	Spouse	Property
Palandri Enrico	Panariagroup	-			-	Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Premoli Trovati Stefano	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property

ATTACHMENTS

- Reconciliation between the Reclassified Statement of Financial Position and the IFRS Statement of Financial Position at December 31, 2010
- Reconciliation between the Reclassified Statement of Financial Position and the IFRS Statement of Financial Position at December 31, 2009
- Reconciliation between the Summary of Cash Flows and the IFRS Cash Flow Statement

Sassuolo, 25 March 2011

The Chairman
Emilio Mussini

**Reconciliation IFRS Statement of Financial Position / Reclassified Statement of Financial Position
figures at 31/12/2010**

STATEMENT OF FINANCIAL POSITION - IFRS

ASSETS	31/12/2010	REF
CURRENT ASSETS	229,646	
Inventories	134,943	(A)
Trade receivables	83,647	(B)
Due from tax authorities	5,717	(C)
Other current assets	3,011	(D)
Cash and cash equivalents	2,328	(E)
NON-CURRENT ASSETS	117,245	
Goodwill	12,789	(F)
Intangible assets	3,187	(G)
Property, plant and equipment	90,218	(H)
Financial assets	10,773	(I)
Deferred tax assets	-	
Other non-current assets	278	(L)
TOTAL ASSETS	346,891	
LIABILITIES AND EQUITY	31/12/2010	
CURRENT LIABILITIES	124,915	
Due to banks and other sources of finance	37,823	(M)
Trade payables	59,947	(N)
Due to tax authorities	3,310	(O)
Other current liabilities	23,835	(P)
NON-CURRENT LIABILITIES	71,803	
Employee severance indemnities	6,440	(Q)
Deferred tax liabilities	2,438	(R)
Provisions for risks and charges	7,856	(S)
Due to banks and other sources of finance	54,509	(T)
Other non-current liabilities	560	(U)
TOTAL LIABILITIES	196,718	
EQUITY	150,173	
Share capital	22,678	(V)
Reserves	126,051	(W)
Net result for the year	1,444	(X)
TOTAL LIABILITIES AND EQUITY	346,891	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

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

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

**Reconciliation IFRS Statement of Financial Position / Reclassified Statement of Financial Position contained in Directors' Report
figures at 31/12/2009**

STATEMENT OF FINANCIAL POSITION - IFRS			RECLASSIFIED STATEMENT OF FINANCIAL POSITION		
ASSETS	December 31, 2009	REF		December 31, 2009	REF
CURRENT ASSETS	229,587		Inventories	130,367	(A)
Inventories	130,367	(A)	Trade receivables	87,478	(B)
Trade receivables	87,478	(B)	Other current assets	6,699	(C)+(D)-(*)
Due from tax authorities	3,629	(C)	CURRENT ASSETS	224,544	
Other current assets	3,657	(D)	Trade payables	(57,104)	(N)
Cash and cash equivalents	4,456	(E)	Other current liabilities	(28,265)	(O) + (P)
NON-CURRENT ASSETS	122,604		CURRENT LIABILITIES	(85,369)	
Goodwill	12,789	(F)	NET WORKING CAPITAL	139,175	
Intangible assets	3,376	(G)	Goodwill	12,789	(F)
Property, plant and equipment	95,572	(H)	Intangible assets	3,376	(G)
Financial assets	10,580	(I)	Property, plant and equipment	95,572	(H)
Deferred tax assets	-		Equity investments and other financial assets	4	(I)-(**)
Other non-current assets	287	(L)	FIXED ASSETS	111,741	
TOTAL ASSETS	352,191		Receivables due beyond 12 months	287	(L)
LIABILITIES AND EQUITY	December 31, 2009		Employee severance indemnities	(6,710)	(Q)
CURRENT LIABILITIES	124,135		Provisions for risks and charges and deferred taxation	(10,674)	(R)+(S)
Due to banks and other sources of finance	38,766	(M)	Other liabilities due beyond 12 months	(524)	(U)
Trade payables	57,104	(N)	ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	(17,621)	
Due to tax authorities	3,664	(O)	NET CAPITAL EMPLOYED	233,295	
Other current liabilities	24,601	(P)	Short-term financial assets	(4,456)	(E)
NON-CURRENT LIABILITIES	81,542		Short-term financial indebtedness	38,179	(M) - (*)
Employee severance indemnities	6,710	(Q)	NET SHORT-TERM FINANCIAL INDEBTEDNESS	33,723	
Deferred tax liabilities	2,918	(R)	Long-term financial indebtedness	53,058	(T) - (**)
Provisions for risks and charges	7,756	(S)	NET LONG-TERM FINANCIAL INDEBTEDNESS	53,058	
Due to banks and other sources of finance	63,634	(T)	NET FINANCIAL POSITION	86,781	
Other non-current liabilities	524	(U)	Group interest in equity	146,514	(V)+(W)+(X)
TOTAL LIABILITIES	205,677		EQUITY	146,514	
EQUITY	146,514		TOTAL SOURCES	233,295	
Share capital	22,678	(V)			
Reserves	128,443	(W)			
Net result for the period	(4,607)	(X)			
TOTAL LIABILITIES AND EQUITY	352,191				

(*) CURRENT PORTION OF IRB 587
Classified under current assets in the IFRS balance sheet
Included in short-term financial indebtedness in the reclassified balance sheet

(**) NON-CURRENT PORTION OF IRB 10,576
Classified under financial assets in the IFRS balance sheet
Included in long-term financial indebtedness in the reclassified balance sheet

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.

	31/12/2010	
	Short-term securities	(633)
A	Cash and cash equivalents	(2,328)
	Short-term financial assets	(2,961)
	Long-term securities	(10,769)
	Long-term financial assets	(10,769)
B	Due to banks	21,931
	Current portion of long-term loans	15,239
	Leases	653
	Short-term financial indebtedness	37,823
	Non-current portion of long-term loans	43,736
	Leases	10,773
	Long-term financial indebtedness	54,509
C	Net indebtedness	78,602
	Net short-term financial indebtedness	19,603 = A + B
	(as reported in IFRS cash flow statement)	
	Total net financial position	78,602 = C
	(as reported in summary of cash flows contained in the Directors' Report)	

PANARIAGROUP **CONSOLIDATED FINANCIAL STATEMENTS**

CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

(in thousand of euro)

31/12/2010

A - OPERATIONS

Net profit for the year	1,444	A
Depreciation and amortisation	17,402	B
Deferred tax liabilities (assets)	(480)	C
Net change in provisions	3,828	D

Cash flow (absorption) of operations prior to changes in working capital 22,194

(Increase)/decrease in trade receivables	1,548
(Increase)/decrease in inventories	(6,291)
Increase/(decrease) in trade payables	2,843
Net change in other assets/liabilities	(2,471)

Cash flow (absorption) from operations due to changes in working capital (4,371) **F**

Total (A) Cash flow from operations 17,823

B - INVESTMENT ACTIVITY

Net investment in property, plant and equipment and intangible assets	(10,607)	H
Net investment in financial assets	-	J
Exchange difference on property, plant and equipment and intangible assets	(1,252)	K
Business acquisition, gross of short-term net debt of the business acquired	-	L

Total (B) Cash flow (absorption) from investment activity (11,859)

C - FINANCING ACTIVITY

Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
Net change in loans	(4,505)	

Total (C) Cash flow (absorption) from financing activities (4,505)

Opening net cash (indebtedness)	(23,277)	
Change in the translation reserve	2,215	N
Net change in short-term net cash (indebtedness) (A+B+C)	1,459	
Closing net cash (indebtedness)	(19,603)	(X)

Summary of cash flows

(in thousands of Euro)

31/12/2010

Financial position - opening balance (86,781)

Net profit for the period	1,444	A
Depreciation and amortisation	17,402	B
Net change in other provisions	3,348	C+D
Self-financing	22	

Change in net working capital (4) **F**

Dividends 0 **G**

Net investments (10,607) **H**

Effect of acquisitions 0 **L**

Other changes 963 **M + N + K + J**

Financial position - closing balance (78,602) **(Z)**



PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAGROUP CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

<i>rif</i>	<u>ASSETS</u>	<u>31/12/2010</u>	<u>31/12/2009</u>
	CURRENT ASSETS	229,646	229,587
1.a	Inventories	134,943	130,367
1.b	Trade Receivables	83,647	87,478
1.c	Due from tax authorities	5,717	3,629
1.d	Other current assets	3,011	3,657
1.e	Cash and cash equivalents	2,328	4,456
	NON-CURRENT ASSETS	117,245	122,604
2.a	Goodwill	12,789	12,789
2.b	Intangible assets	3,187	3,376
2.c	Property, plant and equipment	90,218	95,572
2.d	Financial assets	10,773	10,580
2.e	Deferred tax assets	0	0
2.f	Other non-current assets	278	287
	TOTAL ASSETS	346,891	352,191
	LIABILITIES	31/12/2010	31/12/2009
	CURRENT LIABILITIES	124,915	124,135
3.a	Due to banks and other sources of finance	37,823	38,766
3.b	Trade payables	59,947	57,104
3.c	Due to tax authorities	3,310	3,664
3.d	Other current liabilities	23,835	24,601
	NON-CURRENT LIABILITIES	71,803	81,542
4.a	Employee severance indemnities	6,440	6,710
4.b.	Deferred tax liabilities	2,438	2,918
4.c	Provisions for risks and charges	7,856	7,756
4.d	Due to banks and other sources of finance	54,509	63,634
4.e	Other non-current liabilities	560	524
	TOTAL LIABILITIES	196,718	205,677
5	EQUITY	150,173	146,514
	Share capital	22,678	22,678
	Reserves	126,051	128,444
	Net profit for the year	1,444	(4,608)
	TOTAL LIABILITIES AND EQUITY	346,891	352,191

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

PANARIAGROUP CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS (THOUSANDS OF EURO)

<i>rif</i>		31/12/2010		31/12/2009	
6.a	REVENUES FROM SALES AND SERVICES	285,179	97.5%	284,490	105.8%
	Change in inventories of finished products	3,111	1.1%	(20,608)	-7.7%
6.b	Other revenues	4,210	1.4%	5,106	1.9%
	VALUE OF PRODUCTION	292,500	100.0%	268,988	100.0%
7.a	Raw materials	(76,087)	-26.0%	(67,471)	-25.1%
7.b	Services, leases and rentals	(115,761)	-39.6%	(108,718)	-40.4%
	<i>of which, related party transactions</i>	(5,096)	-1.7%	(5,048)	-1.9%
7.c	Personnel costs	(69,863)	-23.9%	(68,036)	-25.3%
	Change in inventories of raw materials	405	0.1%	(832)	-0.3%
7.d	Other operating expenses	(2,941)	-1.0%	(2,822)	-1.0%
	PRODUCTION COSTS	(264,247)	-90.3%	(247,879)	-92.2%
	GROSS OPERATING PROFIT	28,253	9.7%	21,109	7.8%
8.a	Amortisation and depreciation	(17,402)	-5.9%	(17,139)	-6.4%
8.b	Provisions and writedowns	(4,371)	-1.5%	(2,964)	-1.1%
8.c	Non recurring Provisions and Writedowns	-	0.0%	(788)	-0.3%
	NET OPERATING PROFIT	6,480	2.2%	218	0.1%
9.a	Financial income (expense)	(2,058)	-0.7%	(4,732)	-1.8%
	PRE-TAX PROFIT	4,422	1.5%	(4,514)	-1.7%
10.a	Income taxes	(2,978)	-1.0%	(94)	0.0%
	NET PROFIT	1,444	0.5%	(4,608)	-1.7%
	BASIC AND DILUTED EARNING PER SHARE	0.03		(0.10)	

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

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

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31/12/2010	31/12/2009
NET PROFIT (LOSS) FOR THE PERIOD	1,444	(4,608)
OTHER COMPONENTS OF COMPREHENSIVE INCOME		
Exchange rate differences from foreign operations	2,215	(1,015)
COMPREHENSIVE INCOME FOR THE PERIOD	3,659	(5,623)

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

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

	31st December	
	2010	2009
A - OPERATIONS		
Net Result of the period	1,444	(4,608)
Amortisation, depreciation and impairments	17,402	17,339
Deferred tax liabilities (assets)	(480)	(395)
Net change in provisions	3,828	2,868
<i>Cash flow (absorption) from operations prior to changes in working capital</i>	<i>22,194</i>	<i>15,204</i>
(Increase)/Decrease in trade receivables	1,548	7,554
(Increase)/Decrease in inventories	(6,291)	21,695
(Increase)/Decrease in trade payables	2,843	(7,974)
Net change in other current assets/liabilities	(2,471)	(6,383)
<i>Cash flow (absorption) from operations due to changes in working capital</i>	<i>(4,371)</i>	<i>14,892</i>
TOTAL (A) CASH FLOW FROM OPERATIONS	17,823	30,096
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(10,607)	(15,918)
Net investment in financial assets	-	-
Exchange difference on tangible and intangible assets	(1,252)	532
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	(11,859)	(15,386)
C - FINANCING ACTIVITY		
Increase in capital	-	-
Distribution of dividends	-	(1,348)
Other changes in equity	-	-
(Purchase) Sale of treasury shares	-	-
Net change in loans	(4,505)	32,454
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	(4,505)	31,106
Opening net cash (indebtedness)	(23,277)	(68,078)
Change in the translation reserve	2,215	(1,015)
Net change in net short-term cash (indebtedness) (A+B+C)	1,459	45,816
Closing net cash (indebtedness)	(19,603)	(23,277)
Supplementary information		
Interest paid	1,662	2,468
Income taxes paid	3,605	2,747

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

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

PANARIAGROUP

Statement of changes in consolidated equity from 1 January 2009 to 31 December 2010

	Share capital	Share premium reserve	Revaluation reserves	Legal reserve	Other reserves	Translation reserve	Retained earnings	Group net results	Total Equity
(THOUSANDS OF EURO)									
Balance as of 01.01.2009	22,678	60,783	4,493	3,063	37,429	(2,334)	21,928	5,445	153,485
Translation of foreign company financial statements into euro						(656)			(656)
Exchange difference on loans to foreign companies						(359)			(359)
Total gains (losses) booked directly to equity						(1,015)			(1,015)
Allocation of net profit				305	5,799		(659)	(5,445)	
Sale (Purchase) of treasury shares									
Distribution of dividends					(1,348)				(1,348)
Net results for the year								(4,608)	(4,608)
Balance as of 31.12.2009	22,678	60,783	4,493	3,368	41,880	(3,349)	21,269	(4,608)	146,514
Translation of foreign company financial statements into euro						1,449			1,449
Exchange difference on loans to foreign companies						766			766
Total gains (losses) booked directly to equity						2,215			2,215
Allocation of net profit					(1,478)		(3,130)	4,608	
Sale (Purchase) of treasury shares									
Distribution of dividends									
Net results for the year								1,444	1,444
Balance as of 31.12.2010	22,678	60,783	4,493	3,368	40,402	(1,134)	18,139	1,444	150,173

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

PANARIAGROUP

EXPLANATORY NOTES

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 Panariagroup (the "Group") produce and sell ceramic tiles for floors and wall coverings.

The consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.

The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

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 - 31 December 2010 (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 consolidated financial statements include:

- the consolidated statement of financial position at 31 December 2010 with comparative figures at 31 December 2009. The statement of financial position 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 statement of financial position.

- The consolidated income statement for the year ended 31 December 2010, with comparative figures for the year ended 31 December 2009.

Note that as decided at the time of the transition to IFRS, the income statement shows the following intermediate results, even if they are not accepted by IFRS as a

valid accounting measurement, because Group management is of the opinion that they are important information for understanding the Group's results for the period:

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

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 2010 with comparative figures for the year ended 31 December 2009, presented in accordance with the requirements of IAS 1 revised.
- consolidated cash flow statement for 2010 and 2009. 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 from 1 January 2009 to 31 December 2010.
- the explanatory notes (with related attachments).

1) GENERAL INFORMATION ON THE GROUP

The companies that make up the Panariagroup 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 fully paid-in
- **Panariagroup USA Inc.**, with head office in Delaware, USA and share capital of USD 55,500,000 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

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

The scope of consolidation is unchanged with respect to 31 December 2009.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements at 31 December 2010 include the financial statements of Panariagroup Industrie Ceramiche S.p.A. 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 has changed its method of accounting for amortisation of the Maronagres goodwill from the transition date (1 January 2004). In other words, starting on this date, the Group has 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.

Accounting policies

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 statement of financial position 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 than 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 than 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 statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position 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 statement of financial position 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:

	31/12/2010	31/12/2009
Average exchange rate for the period	1.3257	1.3948
Current exchange rate at the statement of financial position date	1.3362	1.4406

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.

Income taxes

Income taxes for the year are the sum of current and deferred taxes.

Current taxes are based on the taxable result for the year. Taxable income differs from the result shown in the income statement as it excludes positive and negative elements that will be taxed or deducted in other financial years, while it also excludes those items that will never be taxed or deducted for tax purposes. The current tax liability is calculated using the official or effective tax rates ruling at the statement of financial position date.

Deferred taxes are the taxes that are expected to be paid or recovered on temporary differences between the book value of the assets and liabilities shown in the financial statements and the corresponding value for tax purposes used in calculating taxable income, accounted for according to the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, whereas deferred tax assets are only recognised to the extent that it is considered probable that there will be sufficient taxable income in the future to absorb them. These assets and liabilities are not recognised if the temporary differences derive from goodwill or from the initial recognition (not in business combinations) of other assets or liabilities in transactions that do not have any influence either on the accounting result or on the taxable result.

Deferred tax liabilities are recognised on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in those cases where the Group is able to control the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to allow all or part of such assets to be recovered.

Deferred taxes are calculated on the basis of the tax rate that is expected to be in force at the time that the asset is realised or the liability extinguished. Deferred taxes are booked directly to the income statement, except for those relating to items booked directly to equity, in which case the related deferred taxes are also booked to equity.

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 statement of financial position, 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.

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 statement of financial position, 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 statement of financial position, financial position, results and cash flow.

Accounting standards, amendments and interpretations applicable from 1 January 2010 that are relevant for the Group

The following accounting standards, amendments and interpretations, revised as a result of the IASB's annual improvement process in 2009, have been applied by the Group for the first time from 1 January 2010.

IFRS 3 Revised – Business Combinations

The main changes made to IFRS 3, which have to be applied on a forward-looking basis from 1 January 2010, involve the elimination of the obligation to measure the individual assets and liabilities of a subsidiary at fair value in each subsequent acquisition, in the event of a step acquisition. Goodwill will only be determined during the acquisition as the difference between the value of the investments immediately prior to the acquisition, the purchase price and the value of the net assets acquired. Moreover, in the event that the company does not buy 100% of the investment, the portion of equity pertaining to minority interests can be measured either at fair value, or by using the method previously given in IFRS 3.

The revised version of the standard also provides for booking to profit and loss all costs connected with the business combination and the recognition at the acquisition date of all liabilities for contingent payments (subject to certain conditions). Adoption of this amendment has not had any impact on the Group's consolidated financial statements at 31 December 2010.

Improvement to IAS 39 – Financial Instruments: Recognition and Measurement

This amendment, which is to be applied retrospectively from 1 January 2010, clarifies application of the standard for the definition of the underlying being hedged in particular circumstances.

IAS 7 – Cash Flow Statements

The amendment, which has been applied from 1 January 2010, requires that only cash flows involving expenses that result in the recognition of an asset in the statement of financial position can be classified in the cash flow statement as being from investment activity, whereas cash flows involving expenses that do not result in the recognition of a fixed asset (as may be the case with promotion, advertising or staff training expenditure) have to be classified as coming from operations.

IAS 17 – Leases

Following the changes introduced by this amendment, the general conditions envisaged in IAS 17 will also apply to leased land for the purpose of classifying the contract as a finance or operating lease, regardless of whether or not ownership is obtained at the end of the contract period. Prior to the amendment, the accounting standard required land leases to be classified as operating leases if ownership was not transferred at the end of the contract period, given that land has an indefinite useful life. This amendment is applicable from 1 January 2010; at the date of adoption, all land already held under unexpired leases must be measured separately, with the retrospective recognition of a new finance lease if relevant under the terms of the contract.

IAS 36 – Impairment of Assets

This amendment, applicable on a forward-looking basis from 1 January 2010, requires that no cash-generating unit or group of cash-generating units to which goodwill is allocated for impairment testing purposes may be bigger than an operating segment, as defined by paragraph 5 of IFRS 8 and before the aggregation allowed by paragraph 12 of IFRS 8 when segments have similar economic characteristics or other similarities.

IAS 38 – Intangible Assets

The revision of IFRS 3 carried out in 2008 established that there is sufficient information for an intangible asset acquired during a business combination to be measured at fair value if it is separable or if it originated from contractual or legal rights. IAS 38 was subsequently amended to reflect this change to IFRS 3. The amendment in question also clarified the valuation techniques that should normally be used for measuring at fair value intangible assets that do not have an active market; indeed, a number of alternative techniques can be used, namely an estimate of the discounted net cash flows originated by the assets, an estimate of the costs that the company has avoided incurring by owning the asset and not having to use it under a licence contract with a third party, or the costs needed to recreate it or replace it (as in the cost method). The amendment is applicable on a forward-looking basis from 1 January 2010.

IAS 1 – Presentation of Financial Statements

This amendment, which has been applied from 1 January 2010, changes the definition of a current liability contained in IAS 1. The previous definition required liabilities to be classified as current if they could be extinguished at any moment in time in issuing equity instruments. This meant booking as current liabilities convertible bond loans that could be converted into the issuer's shares at any time. As a result of this change, the fact that there

is an option to convert into equities that can be exercised during the current year is now considered irrelevant for the purpose of classifying the liability as current or non-current.

Accounting standards, amendments and interpretations applicable from 1 January 2010 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 condensed half-yearly consolidated financial statements, though they could have an accounting impact on future transactions or agreements:

Improvement to IFRS 5 – Non-current assets held for sale and discontinued operations

This amendment says that if a company is involved in a disposal plan that entails losing control of a subsidiary, all of the subsidiary's assets and liabilities have to be reclassified as non-current assets held for sale, even if the company will still hold a minority interest in the subsidiary after the sale. The Group has adopted this improvement to IFRS 5 on a forward-looking basis from 1 January 2010 without it having had any accounting impact at 30 June 2010.

Improvement to IAS 27 – Consolidated and Separate Financial Statements

This amendment to IAS 27 lays down that changes in an investment interest that do not constitute a loss of control have to be treated as an equity transaction, which means that the contra-entry has to be to equity. It also says that when a parent company cedes control over an affiliate, but still continues to hold an interest in the company, it has to measure the investment kept in the statement of financial position at fair value and book any gains or losses deriving from loss of control to profit and loss. Lastly, the amendment to IAS 27 requires all losses attributable to the minority shareholders be allocated to the minority interests' share of equity, even when such losses exceed their share of the company's capital.

IFRS 5 – Non-current assets held for sale and discontinued operations

This amendment, which has been applied from 1 January 2010 on a forward-looking basis, has clarified that IFRS 5 and the other IFRS which specifically refer to non-current assets (or groups of assets) classified as held for sale or as discontinued operations establish all the disclosures needed for these types of assets or operations.

IAS 39 – Financial Instruments: Recognition and Measurement

This amendment restricts the exception of non-applicability contained in paragraph 2g of IAS 39 to forward contracts between a buyer and a shareholder that is selling with a view to disposing of a firm as part of a business combination at a future transaction date, if completion of the business combination does not depend on further action on the part of one of the two parties, but only on the passing of a suitable period of time. On the other hand, the amendment clarifies that the scope of application of IAS 39 includes option contracts (whether or not currently exercisable) that allow one of the two parties to have control on the occurrence or otherwise of future events and exercising it would lead to control over the business.

The amendment also clarifies that the implicit penalties for the early extinction of loans,

which compensate the lender for losing part of the interest income, have to be considered strictly related to the loan contract that envisages them and should not therefore be accounted for separately. Lastly, the amendment explains that gains or losses on a hedged financial instrument have to be reclassified from equity to the income statement in the period when the hedged expected cash flow impacts the income statement. This amendment is applicable on a forward-looking basis from 1 January 2010.

IFRIC 9 – Reassessment of embedded derivatives

This amendment makes it possible, under certain circumstances, to reclassify particular financial instruments out of the "fair value through profit or loss" category.

IFRIC 17 – Distribution of non-cash assets to owners

The IFRIC issued this interpretation in order to harmonise the accounting treatment of non-cash asset distributions to business owners. The interpretation explains that a liability for dividends has to be recognised when the dividends have been suitably authorised and that this liability has to be measured at the fair value of the net assets that will be used to pay them. Lastly, if there is a difference between the dividends paid and the net book value of the assets used to pay them, the company has to charge it to the income statement .

IFRIC 18 – Transfers of assets from customers

This interpretation clarifies the accounting treatment to be adopted when an entity makes an agreement in which it receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. In fact, in certain cases, the entity receives cash from the customer to build or acquire the asset that will be used to implement the contract.

IFRS 2 – Share-based payment

This amendment, which has to be applied from 1 January 2010, clarifies that as IFRS 3 changed the definition of business combination, contributing a business division to form a joint venture or combining firms or business divisions to form an entity under joint control does not fall under the scope of IFRS 2.

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

On 8 October 2009, the IASB issued an amendment to IAS 32 – Financial Instruments: Presentation: Classification of Rights Issues, to regulate the accounting treatment of rights issues (rights, options or warrants) denominated in currencies other than the issuer's functional currency. Previously, such rights were accounted for as liabilities arising from derivative financial instruments; this amendment, on the other hand, requires under certain conditions that such rights be booked to equity whatever the currency in which the strike price is denominated. This amendment has to be applied retrospectively from 1 January 2011.

On 4 November 2009 the IASB issued a revised version of IAS 24 – Related Party

Disclosures, which simplifies the type of information required in the event of transactions with related parties controlled by the State. It also clarifies the definition of related parties. This standard has to be applied from 1 January 2011.

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 2013, 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 and for the derecognition of financial assets from the statement of financial position. 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 26 November 2009, the IASB issued a minor amendment to IFRIC 14 – Advance Payments in the Context of Minimum Funding Requirements, allowing companies that are required to pay a minimum contribution in advance to recognise it as an asset. This amendment has to be applied from 1 January 2011.

On 26 November 2009, the IFRIC issued IFRIC Interpretation 19 – Extinguishing Financial Liabilities with Equity Instruments, which lays down guidelines on the accounting treatment to be followed in such cases. The interpretation states that if a company renegotiates the conditions for the extinction of a financial liability and its creditor accepts to extinguish it by issuing shares in the company, such shares form part of the price paid to extinguish the liability and have to be measured at fair value; any difference between the book value of the financial liability extinguished and the opening value of the equity instruments issued has to be booked to profit and loss for the period. This interpretation has to be applied from 1 January 2011.

On 6 May 2010 the IASB issued its latest series of "Improvements to IFRS" for the period 2008 – 2010, making minor adjustments to the accounting standards currently in force. The document contains a series of changes to seven international accounting standards (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13). These changes are applicable from 1 January 2011.

On 7 October 2010, the IASB published a number of amendments to IFRS 7 – Financial Instruments: Disclosures, applicable for accounting periods that begin on or after 1 July 2011. The amendments were issued with the intention of improving the comprehension of transactions involving the transfer of financial assets, including comprehension of the possible effects of any risks left in the hands of the company that transferred the assets. The amendments also ask for more information in the event that a disproportionate amount of such transactions is carried out towards the end of an accounting period.

On 20 December 2010 the IASB issued a minor amendment to IFRS 1 – First-Time Adoption of International Financial Reporting Standards (IFRS) to eliminate the reference

to 1 January 2004, which is described as the date of transition to IFRS, and to provide guidelines on the presentation of IFRS-compliant financial statements after a period of hyperinflation. These changes will be applicable from 1 July 2011.

On 20 December 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires companies to evaluate the deferred taxation on an asset according to the way in which the book value of the asset will be recovered (i.e. by 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. This amendment is applicable from 1 January 2012.

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 clay, are settled in US dollars.

In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps and currency put options.

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 fulfil 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) RECONCILIATION OF THE PARENT COMPANY'S EQUITY AND NET PROFIT WITH THE CORRESPONDING CONSOLIDATED AMOUNTS

The equity and net profit reported in the Parent Company's IFRS-compliant financial statements are reconciled below with the corresponding consolidated amounts as of 31 December 2010 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	137,415	2,081
a) Difference between the book value of equity investments and their value using the equity method	12,793	481
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(399)	(191)
c) Reversal of exchange losses (gains) on intercompany loan	0	(766)
d) Alignment to Group depreciation's rates	215	215
e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	67	2
f) Elimination of unrealised profits on distribution of dividends between Group companies	0	(3,960)
g) Writedown of book value of equity investments in subsidiaries	0	3,500
h) Others	82	82
Net effect of consolidation adjustments	12,758	(637)
As per consolidated financial statements	150,173	1,444

4) OTHER INFORMATION

Presentation of the consolidated financial statements

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

Subsequent events

There are no matters worth mentioning.

5) COMMENTS ON THE PRINCIPAL ASSET CAPTIONS

1. CURRENT ASSETS

1.a. Inventories

Inventories are analysed as follows at 31 December 2010:

	31/12/2010	31/12/2009
Raw, ancillary and consumable materials	11,034	10,572
Work in progress	1,512	1,293
Finished products	119,513	116,657
Buildings held for sale	2,883	1,845
	134,943	130,367

Inventories have increased by Euro 4.5 million in terms of value, but by volume in stock they are in line with 2009. For around Euro 2 million, the higher value is due to the exchange effect on the inventory of the US business unit (8% appreciation of the dollar at the end of 2010 compared with the end of 2009), while for the rest it is due to higher average costs principally caused by a higher value product mix.

Inventories are shown net of a provision for obsolescence of Euro 12,931 thousand at 31 December 2010 (Euro 11,306 thousand at 31 December 2009), 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 2,883 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 year.

1.b. Trade receivables

Trade receivables are made up as follows:

	31/12/2010	31/12/2009
Trade receivables	87,351	91,522
Provision for bad and doubtful accounts	(3,704)	(4,044)
	83,647	87,478

Net trade receivables have fallen compared with 31 December 2009 by around 4%, on a turnover that is in line with the previous year.

"Trade receivables" include around Euro 4.1 million in amounts over 120 days past due (corresponding to about 4.7 % of total receivables), for which there is a provision for bad and doubtful accounts of Euro 3.7 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 consolidated financial statements.

At 31 December 2010 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 1.1 million at 31 December 2009). In January 2011, the Group collected one of the receivables guaranteed by "preliminary agreements" for the sale of apartments for an amount of Euro 185 thousand.

As in previous periods, the Group did not factor any of its receivables during 2010.

1.c. Due from tax authorities

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

	31/12/2010	31/12/2009
VAT receivable	3,963	889
Advance tax payments	1,169	1,959
Other amounts due from tax authorities	585	781
	5,717	3,629

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

"VAT receivable" includes Euro 203 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.

As from the 2008 tax return (for 2007 income) and for the next three years, 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, starting from 2010, also 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 decrease in "Other amounts due from tax authorities" is attributable to use of part of the tax credit for R&D activities that accrued in 2009 on the payment of advance taxes. This item includes the residual balance of this credit and the tax credit for IRAP not deducted during the years 2004-2006 for which a rebate was requested in previous years, for an amount of Euro 296 thousand.

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:

	31/12/2010	31/12/2009
Advances to social security institutions	279	673
Advances to suppliers	317	366
Rebates from suppliers and credit notes to be received	168	201
Loans to employees/third parties	294	376
IRB – Current portion	633	588
Other	98	61
Total other current receivables	1,789	2,265
- prepaid rents	537	515
- accrued and prepaid insurance premiums	187	238
- other accrued income and prepaid expenses	498	639
Total current accrued income and prepaid expenses	1,222	1,392
	3,011	3,657

The "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 prepaid rents of Euro 537 thousand at 31 December 2010 relate entirely 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 refer to 2011.

1.e. Cash and cash equivalents

These are made up as follows:

	31/12/2010	31/12/2009
Bank and post office deposits	2,274	4,406
Cheques	-	5
Cash and equivalents on hand	54	45
	2,328	4,456

The changes in financial position in 2010, compared with 2009, are analysed in the consolidated cash flow statement shown previously.

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 31 December 2010: 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 31 December 2010: 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 31 December 2010: 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.

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:

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

Both the above guarantees were extended during the year to 31/12/2014.

- 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.

Impairment Testing

As stated earlier in the section on Accounting Principles, at each statement of financial position date, the Group reviews the book value of its tangible and intangible assets for any signs that these assets might be impaired.

The impairment tests required by these principles were carried out at the end of 2010 in relation to the goodwill recognised with regard to Gres Panaria Portugal S.A, to Panariagroup USA in view of the consolidated operating loss reported by this sub-group, and to the goodwill recognised with regard to Montanari Francesco S.r.l.

The impairment test was performed at company level, since each is considered to be a CGU. Their recoverable value was deemed to be their value in use (Enterprise value), given that it is not possible to establish reliably their fair value net of selling costs. Enterprise value less net financial indebtedness at 31 December 2010 gives Equity value.

The value of each CGU and the enterprise value were determined by applying a DCF ("Discounted Cash Flow") model to the cash flows included in the 2011 – 2014 Business Plan approved by the Board of Directors of the Parent Company on 25 March 2011. Following the detailed forecasting period, a terminal value was determined by projecting in perpetuity the Net Operating Profit Less Adjusted Tax (NOPLAT) for the final year of the Plan.

The rates used to discount the expected cash flows were consistent with that determined for the Group by leading institutional investors of 7.7% (7.8% used in 2009).

The terminal value represents the present value, in the final year of the Plan, of all subsequent cash flows in perpetuity. The growth rate of the NOPLAT is a key parameter for determining terminal value, since it represents the annual growth rate of the cash flows generated in perpetuity. The growth rate utilised for the calculation of terminal value in 2010 was 0%, in line with 2009.

In addition, as required by the joint document issued by the Bank of Italy, Consob and Isvap, Doc. 2 dated 6 February 2009, the Group has carried out a sensitivity analysis on the results of the impairment tests given changes in the key assumptions (growth rate used to determine terminal value and WACC) that affect the value in use of the cash generating units.

Note that impairment tests are based on the Company's plans for expected business development which, in contrast to previous forecasts, have been revised downwards in

light of the current uncertainty in the ceramics sector.

No critical effects on the consolidated financial statements have been noticed as a result of the new plans being considered.

The assumptions used for performing these tests are shown below.

Gres Panaria Portugal

	2011	2012	2013	2014
<i>NOPLAT (€/million)</i>	+4.6	+4.8	+5.0	+5.2
<i>WACC</i>	7.7%			
<i>Perpetual growth rate</i>	0%			

NOPLAT = Net Operating Profit Less Adjusted Tax

Based on the assumptions listed above, the equity value of Gres Panaria Portugal is around Euro 63.8 million compared with a book value of the net assets reported in the consolidated financial statements of some Euro 58.9 million.

Panariagroup USA (sub-consolidation)

The assumptions used for testing the impairment of Panariagroup USA were as follows:

	2011	2012	2013	2014
<i>NOPLAT (USD/million)</i>	-0.9	+0.9	+2.5	3.9
<i>WACC</i>	7.7%			
<i>Perpetual growth rate</i>	0.0%			

NOPLAT = Net Operating Profit Less Adjusted Tax

Based on the assumptions listed above, the equity value of Panariagroup USA is around USD 27.0 million compared with a book value of the net assets reported in the consolidated financial statements of some USD 22.4 million.

It is worth pointing out that the subsidiary company Florida Tile Inc showed considerable losses both in previous years and in the year just ended, including operating losses). Company management has elaborated a restructuring program which includes significant investments in new state-of-the-art plant and machinery, and believes that with the financial support of the Parent Company the subsidiary will, over the medium term, be able to improve its capital, financial and earning structure, allowing it to continue to operate as a going concern.

Montanari Francesco S.r.l.

	2011	2012	2013	2014
NOPLAT (€/thousand)	47	65	84	104
WACC	7.7%			
Perpetual growth rate	0.0%			

NOPLAT = Net Operating Profit Less Adjusted Tax

Based on the assumptions listed above, the equity value of Montanari Francesco S.r.l., about Euro 1.1 million, is higher than the book value of the net assets reported in the consolidated financial statements of about Euro 0.8 million.

Impairment - Sensitivity Analysis

The variations in subsidiaries' equity value, as affected by the main assumptions (WACC and perpetual growth rate), are shown below.

Euro millions	WACC -0.5%	WACC used	WACC +0.5%
Gres Panaria	67.2	63.8	60.7
Panariagroup USA (*)	29.6	27.0	24.7
Montanari	1.2	1.2	1.1

(*) USD millions

Euro millions	Perpetual growth rate 0.5%	Perpetual growth rate used	Perpetual growth rate +0.5%
Gres Panaria	60.5	63.8	67.5
Panariagroup USA (*)	24.6	27.0	29.8
Montanari	1.1	1.2	1.2

(*) USD millions

The Plan information processed using the parameters described above was determined by Company management based on historical experience and expectations for the growth of the market in which the Company operates. In this regard, the adverse trend in ceramics sector demand during the final quarter of 2008 and throughout 2009, followed by substantial stability in 2010, have induced management to reconsider on a conservative basis the growth rates expected for revenues and profitability. It is worth pointing out that assessing the recoverable value of the cash generating units requires management to use its judgment in making estimates, which means that the Company cannot guarantee that these investments will not lose further value in the future. The circumstances and events that might result in further impairment will be monitored constantly by the Company.

2.b. Intangible assets

"Intangible assets" at 31 December 2010 amount to Euro 3,187 thousand, which is lower than the figure of Euro 3,376 thousand reported at 31 December 2009.

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:

	31/12/2010	31/12/2009
Land and buildings	26,943	27,538
Plant and machinery	48,589	53,744
Equipment and other assets	13,786	13,354
Construction in progress	900	936
	90,218	95,572

Changes during the year can be summarised as follows:

Balance at 1/1/2010	95,572
Additions	9,790
Retirements	(97)
Depreciation charge	(16,164)
Exchange differences for foreign subsidiaries	1,117
Balance at 31/12/2010	90,218

The changes during the period are reported in an attachment.

Investment in property, plant and equipment during the period of some Euro 9.8 million includes Euro 5.9 million for implementations at the Group's Italian factories, Euro 1.9 million in expenditure on the Portuguese factories and Euro 2 million in expenditure on the US factory.

"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.

The value of property, plant and equipment includes around Euro 520 thousand in impairment losses relating to a number of smaller branches of Florida Tile Inc. no longer considered of strategic importance.

2.d. Financial assets

This caption comprises:

	31/12/2010	31/12/2009
Industrial Revenue Bond	10,769	10,576
Other	4	4
	10,773	10,580

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 in relation to the major investment in the Lawrenceburg factory, 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 change in value of the Industrial Revenue Bond compared with 31 December 2009 is due to repayment of the annual instalment of around USD 850 thousand, which is more than offset by the exchange effect on translation of the original balance (expressed in dollars) at the year-end exchange rate.

2.e Deferred tax assets

This caption reports the following balances at the end of both periods:

	31/12/2010	31/12/2009
Deferred tax assets	-	-

At both 31 December 2010 and 31 December 2009 the value of deferred tax liabilities was higher than that of deferred tax assets, meaning that the net balance is shown under "Deferred tax liabilities".

2.f. Other non-current assets

This caption comprises:

	31/12/2010	31/12/2009
Guarantee deposits for utilities	168	167
Other	110	120
Total other non-current receivables	278	287
Total non-current accrued income and prepaid expenses	-	-
	278	287

6) COMMENTS ON THE MAIN LIABILITY AND EQUITY CAPTIONS

3. CURRENT LIABILITIES

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

Short-term financial payables are made up as follows:

	31/12/2010	31/12/2009
Current account overdrafts	2,679	2,307
Export advances	17,007	24,052
Long-term loans	15,239	10,126
Leases	653	907
Other loans	2,245	1,374
	37,823	38,766

The changes in financial position during 2010, compared with 2009, 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 31 December 2010 amounted to Euro 145.4 million, of which Euro 19.7 million had been drawn down at that date.

"Long-term loans" include Euro 163 thousand for the current portion of the loan from the Ministry of Industry, Euro 332 thousand for the current portion of the loan from Simest S.p.A. for the commercial penetration of the USA by Lea North America LLC, and Euro 13,690 thousand for the current portion of six unsecured loans obtained from 2006 to 2010 by the Parent Company; they also include the current portion, Euro 1,054 thousand, of a loan obtained during 2009 by Gres Panaria Portugal. These loans are discussed in more detail in the section entitled "Due to banks and other sources of finance" under non-current liabilities.

"Leases" of Euro 653 thousand include Euro 633 thousand for the current portion of the lease connected with the IRB and for the rest to the lease contracts for motor vehicles and internal means of transport at Florida Tile Inc.

Gres Panaria Portugal's sale and lease-back contract, which involved the sale of the land and industrial buildings where it conducts its business to a leasing company, simultaneously buying it back under a finance lease, came to an end in April 2010 with the company redeeming the buildings.

"Other loans" of Euro 2,245 thousand at 31 December 2010 relate to a short-term loan in US dollars obtained by Florida Tile Inc. to finance its working capital; the loan carries a floating interest rate that is index-linked to USD Libor.

Like in previous years, the Group has not carried out any factoring or securitisation transactions during the period.

3.b. Trade payables

Changes in trade payables are as follows:

	31/12/2010	31/12/2009
Trade payables	59,947	57,104

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities.

3.c. Due to tax authorities

This caption comprises:

	31/12/2010	31/12/2009
Withholding tax	2,189	2,152
Income taxes	950	705
Flat-rate taxes	7	461
VAT	20	81
Other	144	265
	3,310	3,664

"Income taxes" comprise the amount (inclusive of penalties and interest) payable following the assessment issued to the Parent Company by the tax authorities in December 2009.

The last instalment of the substitute tax on realignment of differences in book values due to accelerated depreciation was paid in 2010. This tax was introduced by the 2008 Budget Law, which allowed it to be paid over three years.

"Other" mostly refers to property taxes payable by Florida Tile Inc.

3.d. Other current liabilities

This caption comprises:

	31/12/2010	31/12/2009
Due to social security institutions	3,449	3,277
Due to employees	5,765	6,332
Due to customers	4,872	4,533
Due to agents	8,887	9,209
Shannon plant closure expenses	98	351
Financial derivatives – negative fair value	197	268
Other	260	251
Total current payables	23,528	24,221
Deferred income for capital grants	83	134
Accrued interest expense	13	17
Other	211	229
Total current accrued expenses and deferred income	307	380
	23,835	24,601

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2010	31/12/2009
Employee severance indemnities	6,440	6,710

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

Demographic assumptions

Average retirement age: 60 years.

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, being the returns on short and long-term government bonds, plus a risk premium of 0.5%:

31/12/2010: discount rate = 5.3 %

31/12/2009: discount rate = 4.8 %

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 1.9%, in line with 31 December 2009.

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

	31/12/2010	31/12/2009
Present value of the obligation	5,897	6,505
Unrecognised actuarial gains (losses)	543	205
Book value of employee severance indemnities	6,440	6,710

The actuarial gains at 31 December 2010 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.

The changes in this provision during the year were as follows:

Net book value at 31/12/2009	6,710
Charge to the income statement	312
Portion paid out during the year	(582)
Employee severance indemnities at 31/12/2010	6,440

The charge to the income statement in 2010 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

Details are as follows:

	31/12/2010	31/12/2009
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	3,576	3,790
- valuation of severance indemnities according to IFRS	267	295
- valuation of agents' termination indemnities according to IFRS	481	462
- valuation of inventories	2,674	2,968
- lease-back	345	369
- exchange differences on valuation	280	-
- accelerated depreciation	141	46
- other	94	127
Total deferred tax liabilities	7,858	8,057
Deferred tax assets:		
- taxed provisions	(4,621)	(4,225)
- carried-forward tax losses	(748)	(694)
- exchange differences on valuation	-	(168)
- other	(51)	(52)
Total deferred tax assets	(5,420)	(5,139)
Deferred tax liabilities	2,438	2,918

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 3,576 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.

Deferred tax assets for "carried-forward tax losses" refer entirely to the tax losses for the year of Florida Tile Inc.; as far as this subsidiary is concerned, Group management has approved a business plan under which it should break even in the medium term.

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 10.4 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 important changes that it is currently undergoing. The recoverability of this asset therefore depends on the US subsidiaries' effective ability to report a medium-term profit, as indicated in the business plan approved by the Group's Board of Directors.

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31/12/2010	31/12/2009
Taxation	4,499	4,053
Provision for agents' termination indemnities	2,906	2,935
Provision for reorganising Florida Tile	151	468
Other provisions	300	300
	7,856	7,756

The provision for taxes of Euro 4,499 thousand, has been recorded for Euro 4,214 thousand to cover the risk of losing the tax relief for the newly-listed companies in 2004 from which Panariagroup Industrie Ceramiche S.p.A. benefited in that year.

The relief for newly-listed companies consisted of a reduction in the corporate tax rate from 33% to 20% and the deduction of the flotation costs incurred from taxable income for a period of one year (2004).

The tax relief in question was declared illegitimate by the European Commission as it did not comply with the rules of the EU Treaty on State aid. An appeal by the Italian Government against this decision is currently pending.

During 2006, the Mirandola tax office notified a demand for payment of the sums due along with related interest, in a special notice entitled "Recovery of State Aid C8/2004".

Following this demand, the Company has appealed to the Modena Provincial Tax Commission to refute it.

On 7 February 2007 the hearing was held for the demand's precautionary suspension, which was granted.

On 19 December 2007 another hearing was held at the Modena Provincial Tax Commission to discuss the merits of the special demand: the Commission decided in the Company's favour, concluding that the demand by the Mirandola tax office was unfounded and therefore without merit.

On 12 November 2008 the tax office lodged an appeal against the ruling by the Modena Provincial Tax Commission: Panariagroup Industrie Ceramiche S.p.A. presented a request for the appeal's hearing to be postponed until such time as the first-level court in Luxembourg had pronounced its decision; this request was granted on 26 May 2009.

On 4 September 2009, the first-level court in Luxembourg rejected the appeal filed by the Republic of Italy, confirming the decision taken by the European Commission. On 26 November, the Republic of Italy filed an appeal against this ruling.

The merits of the special demand were discussed on 21 January 2010, having been deferred while awaiting a decision from the first-level court in Luxembourg; on this occasion, the Chairman of the Commission issued an interim statement deferring any

decision on the merits of the dispute while awaiting a new ruling from the European Court of Justice.

On 22 December 2010, the European Court of Justice condemned Italy for not recovering State Aid (a proceeding that is parallel but different from Case C-458/09 P, which is still pending,)

Lastly, on 14 January 2011, as a result of this measure, the Income Tax Office filed a request for revocation of the joint statement with which the President of the Commission decided to defer any decision on the merits of the dispute.

The risk provision reported in the consolidated financial statements reflects the best estimate of the difference between the tax charge shown in the financial statements at 31 December 2004 for current and deferred taxes and the corresponding tax charge on the assumption that these forms of tax relief were not available. Therefore, if the Group should lose the appeal, it does not expect to incur significant liabilities that are not already reflected in the consolidated financial statements.

In terms of current income taxes, the Group took the approach that the tax charge for 2005 and 2006 was to be calculated on the assumption that the tax relief did not apply to the tax returns for those years.

Taxation also includes a provision of Euro 285 thousand to cover matters that could arise following a tax audit by the Portuguese authorities during 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 2006 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 31 December 2010.

In addition, an inspection of the Group's US subsidiaries was completed by the competent tax authorities in February 2010, covering their direct taxes for the 2006, 2007 and 2008 tax years. The matters raised have merely reduced by a negligible amount the tax losses available for carry forward.

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:

31 December 2009	4.33%
31 December 2010	4.32%

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.

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:

	31/12/2010	31/12/2009
Long-term loans	42,621	52,364
Assisted loans	1,115	664
IRB finance lease	10,769	10,577
Other leases	4	29
	54,509	63,634

"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 8.3 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 4 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 23.4 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 4 million in respect of a new unsecured loan taken out in 2010 at a floating rate linked to Euribor and maturing in 2015.
- Euro 2.9 million for a loan taken out in 2009 by Gres Panaria Portugal; this loan, originally for Euro 5 million bears interest at a floating rate linked to Euribor and is repayable by 2014. It is supported by a comfort letter given by the Parent Company.

There are no guarantees in respect of these loans in the bank's favour.

"Assisted loans" relate for Euro 946 thousand to an assisted loan for capital expenditure carried out by the Portuguese company, Gres Panaria Portugal S.A. and for Euro 490 thousand to a loan from the Ministry of Industry with an original amount of Euro 1,458 thousand at a fixed rate of 3.425% with maturity on 18 April 2012. These loans are unsecured.

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 2010 and the exchange-rate effect deriving from the translation to Euro of the original amounts (denominated in dollars) using the closing rate of exchange.

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
2011	15,239	653	(633)	15,259
2012	14,912	637	(633)	14,916
2013	14,743	633	(633)	14,743
2014	8,698	633	(633)	8,698
2015	3,815	633	(633)	3,815
2016	1,568	633	(633)	1,568
2017	-	633	(633)	-
2018	-	633	(633)	-
2019	-	633	(633)	-
2020	-	633	(633)	-
Beyond 10 years	-	5,072	(5,072)	-
Long-term	43,736	10,773	(10,769)	43,740
Financial payables	58,795	11,426	(11,402)	58,999

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

4.e. Other non-current liabilities

This caption comprises:

	31/12/2010	31/12/2009
Due to suppliers beyond 12 months	29	58
Other	531	466
	560	524

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

"Other" relates to accrued rent on the Lawrenceburg plant of Euro 339 thousand. This amount 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" also includes Euro 190 thousand in 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:

	31/12/2010	31/12/2009
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,368	3,368
Translation reserve	(1,134)	(3,349)
Other reserves and retained earnings	58,541	63,149
Net profit (loss) for the year	1,444	(4,608)
	150,173	146,514

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 in 2000 under Law 342 of 21 November 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. No changes took place during the year.

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:

	31/12/2010	31/12/2009
Extraordinary reserve	40,693	40,693
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings and other reserves	18,385	22,993
	58,541	63,149

The *extraordinary reserve* is unchanged compared with the end of 2009.

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 31 December 2010 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. Under these resolutions the shareholders decided to:

- authorise the Board, within the limits laid down by the legal and regulatory provisions applicable from time to time and by the Regulations issued by Borsa Italiana S.p.A. (also in light of the new EU rules on such matters),
 - a) to buy treasury shares for a maximum value no higher than the available reserves shown in the latest approved financial statements and until approval of the financial statements at 31 December 2010, provided that, at any one time, such shares do not exceed 10% of the share capital. The purchase price of such shares may not be more than 10% above or below the official price of the stock posted at the Stock Exchange session immediately prior to each individual transaction, and the number purchased must stay within the limits laid down in current law and in the Regulations issued by Borsa Italiana S.p.A. and by the new EU rules on such matters;
 - b) to sell the treasury shares previously purchased in accordance with the legal and regulatory provisions applicable from time to time and with the Regulations issued by Borsa Italiana S.p.A., as well as in compliance with the new EU rules on such matters, establishing the timing and methods of carrying out each transaction: i) at a price to be established by the Board of Directors based on what is opportune at the time, without prejudice to the fact that this price must optimise the economic effects for the company where the stock is designed to service the issue of convertible debt instruments or stock option plans, or any strategic operations that might involve paying the consideration in the form of shares; ii) at a price that is not more than 20% higher or lower than the official stock market prices posted for the trading sessions prior to the sale.

"Retained earnings (accumulated losses) and other reserves" of Euro 18,385 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 31 December 2010:

- an interest rate swap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on loans in foreign currency;
- a cap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on outstanding loans obtained during the course of 2010;
- a cap with a notional underlying principal of Euro 7,000 thousand to hedge interest rates on outstanding loans obtained during the course of 2010.

These contracts are shown at their fair value in "Other current liabilities" for a total of Euro 197 thousand. The adjustment to fair value at 31 December 2010 involved booking a gain of Euro 71 thousand to the income statement for the period.

GUARANTEES

At 31 December 2010 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 statement of financial position captions to which such guarantees refer.

The loan contracts do not contain any covenants.

7) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

1. REVENUES

6.a. Revenues from sales and services

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

	31/12/2010	31/12/2009
Italy	83,103	87,893
Abroad	206,891	201,989
(Rebates to customers)	(4,815)	(5,392)
	285,179	284,490

Revenues from sales increased overall by 0.2%, going from Euro 284,490 thousand at 31 December 2009 to Euro 285,179 thousand at 31 December 2010 (+0.7 million euro).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31/12/2010	31/12/2009	Change
Expense recoveries (displays, transport)	2,765	2,578	187
Gains on the sale of property	67	253	(186)
Out-of-period income	377	426	(49)
Compensation for damages	31	63	(32)
Grants	21	89	(68)
In-house construction	-	1,302	(1,302)
Interruptibility	183	-	183
Other	766	395	371
	4,210	5,106	(896)
% of Value of production	1.4%	1.9%	-0.5%

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

"In-house construction", worth Euro 1,302 thousand in 2009, related to work carried out by the Company's own personnel to install the new production line for 3mm ceramic sheets at the Fiorano plant, as already mentioned in the section on Property, plant and equipment.

"Interruptibility" relates to the remuneration that the Company has received for the interruptibility service (instantaneous temporary transfer of its electricity allowance to the power grid)

2. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	31/12/2010	% of V.o.P.	31/12/2009	% of V.o.P.
Raw materials	38,786	13.2%	32,980	12.3%
Finished products	26,020	8.9%	25,139	9.3%
Packaging	9,527	3.3%	7,724	2.9%
Price lists/Catalogues	1,522	0.5%	1,480	0.6%
Other	232	0.1%	148	0.1%
	76,087	26.0%	67,471	25.1%

7.b. Services, leases and rentals

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

	31/12/2010	% of V.o.P.	31/12/2009	% of V.o.P.
Property rental	8,840	3.0%	8,819	3.3%
Rent of other fixed assets	2,668	0.9%	2,881	1.1%
Commissions	16,094	5.6%	16,866	6.3%
Utilities	26,442	9.0%	24,605	9.1%
Commercial expenses and advertising	8,741	3.0%	8,335	3.1%
Sub-contract work	14,806	5.1%	13,358	5.0%
Maintenance	9,211	3.1%	8,088	3.0%
Transportation	12,815	4.4%	10,868	4.0%
Industrial services	5,471	1.9%	5,211	1.9%
Directors' and statutory auditors' fees	1,184	0.4%	1,169	0.4%
Consulting fees	3,419	1.2%	3,023	1.1%
Insurance	1,279	0.4%	1,285	0.5%
Other	4,791	1.6%	4,210	1.5%
	115,761	39.6%	108,718	40.4%

"Property rental" mainly includes:

- rents of Euro 4,999 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 3,660 thousand.

7.c. Personnel costs

Personnel costs have increased from Euro 68,036 thousand at 31 December 2009 (25.3% of value of production) to Euro 69,863 thousand at 31 December 2010 (23.9% of value of production).

Personnel costs can be broken down as follows:

	31/12/2010	31/12/2009
Wages and salaries	51,491	50,166
Social security contributions	15,605	15,306
Severance indemnities and other funds	2,109	2,131
Other personnel costs	658	433
	69,863	68,036

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

	31/12/2010	31/12/2009
Managers	30	29
Supervisors and white collar workers	641	655
Foremen and blue collar workers	1,004	1,057
	1,675	1,741

The increase in the overall cost (even though the average workforce was lower than the previous year) is due to higher productivity at the plants (especially the Fiorano plant, which in 2009 received nine months of extraordinary redundancy benefits while being converted to the new gres laminate line).

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2010	% of V.o.P.	31/12/2009	% of V.o.P.
Out-of-period expenses	195	0.1%	211	0.1%
Gifts	80	0.0%	79	0.0%
Trade association fees	103	0.0%	119	0.0%
Losses on disposals	18	0.0%	279	0.1%
Indirect taxes	1,046	0.4%	728	0.3%
Office materials	652	0.2%	581	0.2%
Other	847	0.3%	825	0.3%
	2,941	1.0%	2,822	1.0%

3. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Depreciation and amortisation increased from Euro 17,139 thousand at 31 December 2009 to Euro 17,402 thousand at 31 December 2010, falling by 0.5% as a percentage of value of production.

8.b. Provisions and impairments

"Provisions and impairments" of Euro 4,371 thousand include Euro 238 thousand in provisions for agents' termination indemnities, Euro 1,850 thousand in writedowns against inventories and Euro 2,283 thousand in writedowns against receivables. The higher provisions made compared with previous years reflect prudent valuations of the assets most exposed to the persistent stagnation of this stage in the economic cycle.

8.c. Non-recurring provisions

Around Euro 788 thousand in provisions were booked during 2009 for reorganising the subsidiary Florida Tile (of which Euro 291 thousand to write down fixed assets in its US branches); considering the non-recurring nature of these expenses, they were shown on a separate line in the income statement.

4. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2010	31/12/2009
Interest on short-term loans	(312)	(946)
Interest expense on medium/long-term loans	(1,350)	(1,522)
Financial expense on severance indemnity liability	(291)	(308)
Fair value losses on derivatives	-	(105)
Other	(1,563)	(1,742)
Total financial expense	(3,516)	(4,623)
Bank interest income	1	6
Interest on receivables	100	112
Fair value gains on derivatives	71	-
Other	35	31
Total financial income	207	149
TOTAL FINANCIAL INCOME AND EXPENSE	(3,309)	(4,474)
<i>% of Value of production</i>	<i>-1.1%</i>	<i>-1.7%</i>
Exchange losses	(394)	(1,408)
Exchange gains	1,586	1,074
TOTAL EXCHANGE GAINS AND LOSSES	1,192	(334)
<i>% of Value of production</i>	<i>+0.4%</i>	<i>-0.1%</i>
Financial losses on discounting	-	-
Financial gains on discounting	59	76
DISCOUNTING GAINS (LOSSES)	59	76
<i>% of Value of production</i>	<i>+0.0%</i>	<i>+0.0%</i>
Total financial income (expense)	(2,058)	(4,732)
<i>% of Value of production</i>	<i>-0.7%</i>	<i>-1.8%</i>

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

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 2010 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Exchange Rate	Higher (Lower) Profits €mn
- 2.00%	+1.7
- 1.00%	+0.8
- 0.50%	+0.4
+ 0.50%	(0.4)
+ 1.00%	(0.8)
+ 2.00%	(1.7)

Exchange rates (Eur/Usd)

Exchange Rate	Higher (Lower) Profits €mn
1.10	+5.8
1.20	+ 2.6
1.30	(0.1)
1.40	(2.4)
1.50	(4.4)
1.60	(6.1)

* Hypothesis of a constant interest rate over the entire period

5. INCOME TAXES

10.a Income taxes

Income taxes for the year amount to Euro 2,978 thousand, with a tax rate of 67.3%; The high proportion of income taxes on the pre-tax result is mainly due to the losses of the US sub-consolidation, for which no deferred tax assets have been booked as the basic conditions for doing so do not exist.

Reconciliation between the theoretical tax rate and the actual tax rate (in thousands of Euro)

THEORETICAL TAX RATE - ITALIAN TAXES

A	Pre-tax profit (loss)	3,846
B	Personnel costs	45,136
C	Financial expense (net)	(782)

Theoretical "Tax Rate"
tax charge theoretical

A	Theoretical taxable income for IRES purpose	3,846	1,058	27.50%
A+B+C	Theoretical taxable income for IRAP purpose	48,200	1,880	3.90%
CF1	THEORETICAL TAX CHARGE - ITALIAN TAXES		2,937	76.38%

THEORETICAL TAX RATE - PORTUGUESE TAXES

A	Theoretical taxable income for IRC purpose	5,352	1,418	26.50%
CF2	THEORETICAL TAX CHARGE - PORTUGUESE TAXES		1,418	26.50%

THEORETICAL TAX RATE - US TAXES

A	Theoretical taxable income for IRC purpose	(2,694)	(1,051)	39.00%
CF3	THEORETICAL TAX CHARGE - US TAXES		(1,051)	39.00%

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	THEORETICAL TAX CHARGE - TOTAL		3,305	74.74%
	Estimated Tremonti-ter benefit		(350)	-7.91%
	No recognition of deferred tax assets for US taxes		1,051	23.76%
	Limited fiscal significance of investment w ritedow ns / dividends		(144)	-0.59%
	Taxes related to prior year		(243)	-0.99%
	Tax effects of consolidation adjustments		(564)	-2.31%
	Difference		(77)	-1.73%
	ACTUAL tax charge		2,978	67.35%

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share are disclosed at the foot of the income statement: €0.03 per share at 31 December 2010.

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 year 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.

POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

There have been no transactions/events during the year ended 31 December 2010 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 year 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".

RELATED PARTY TRANSACTIONS

Panariagroup's related parties are:

Finpanaria S.p.A. – Ultimate Parent Company

Immobiliare Gemma S.p.A. – an affiliated company (also controlled by Finpanaria)

INCOME STATEMENT

(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Rental income	4	-	4
Services	29	23	52
Total revenues	33	23	56

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	4,999	4,999
Commission for guarantees given	37	-	37
Services	60	-	60
Total costs	97	4,999	5,096

Rental expense refers to the rents paid for all of the buildings used by Panariagroup's production and logistics activities.

Consulting fees 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 profit	% of operating cash flow*
Revenues	0.03%	0.03%	1.39%	0.26%
Costs	2.77%	2.88%	130.62%	24.23%

* before changes in working capital

STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	35	28	63
Payables	-	-	-
Due from (to) tax authorities	1,382	-	1,382
Net receivable (payable)	1,417	28	1,445

Following the decision to file for tax on a group basis, credits for income tax (IRES) of Euro 1,382 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.

In this connection, we would call your attention to the fact that in November 2010 the Board of Directors approved the procedure on related-party transactions 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 2010 to 31 December 2010
- Statement of changes in property, plant and equipment from 1 January 2010 to 31 December 2010
- Statement of changes in financial position
- Emoluments of directors, statutory auditors and general managers in 2010
- Directors and Officers
- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations
- Certification of the consolidated financial statements in accordance with art. 81-ter of Consob Regulation 11971 of 14 May 1999 and subsequent amendments

Finale Emilia, 25 March 2011,

The Chairman of the Board of Directors

Emilio Mussini

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2010 to 31 December 2010

Panariagroup - Consolidated financial statements

**Statement of changes in intangible assets and goodwill
from 1/1/2010 to 31/12/2010
(in thousands of euro)**

	Concessions, licences, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2010	3,376	-	3,376	12,789
Increases, net	914	-	914	-
Net decreases and impairment	-	-	-	-
Amortisation	(1,238)	-	(1,238)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidiaries	135	-	135	-
Balance at 31/12/2010	3,187	-	3,187	12,789

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2010 to 31 December 2010

Panariagroup - Consolidated financial statements

Statement of changes in property plant and equipment
from 1/1/2010 to 31/12/2010
(in thousands of euro)

	Land and buildings	Plant and machinery	Equipment and other assets	Construction in progress and advances	Total
Balance at 1/1/2010	27,538	53,744	13,354	936	95,572
Increases, net	253	5,470	3,240	827	9,790
Net decreases and impairment	-	(63)	(18)	(16)	(97)
Depreciation	(1,137)	(11,942)	(3,085)	-	(16,164)
Reclassifications	289	610	(14)	(885)	-
Exchange differences on foreign subsidiaries	-	770	309	38	1,117
Balance at 31/12/2010	26,943	48,589	13,786	900	90,218

EXPLANATORY NOTES - ATTACHMENT 3

- Statement of changes in financial position

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)

	Ref.	31/12/2010	31/12/2009	
A	Securities	1.d	(633)	(587)
	Cash and cash equivalents	1.e.	(2,328)	(4,456)
	Short-term financial assets		(2,961)	(5,043)
B	Securities	2.d.	(10,769)	(10,576)
	Long-term financial assets		(10,769)	(10,576)
	Due to banks		21,931	27,733
	Current portion of long-term loans		15,239	10,126
	Leases		653	907
	Short-term financial indebtedness	3.a.	37,823	38,766
	Non-current portion of long-term loans		43,736	53,028
	Due to bondholders		0	0
	Leases		10,773	10,606
	Long-term financial indebtedness	4.d.	54,509	63,634
	Net financial indebtedness		78,602	86,781
A+B	Net short-term financial indebtedness		19,603	23,277

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

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

EXPLANATORY NOTES - ATTACHMENT 4

- Emoluments of directors, statutory auditors and general managers

- ART. 78 -
TABLE 1 - EMOLUMENTS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS IN 2010

PERSON		OFFICE	EMOLUMENTS			
Name	Office	Term of office	Emoluments for the office (1)	Benefits in kind (2)	Bonuses and other incentives (3)	Other emoluments (4)
Mussini Emilio	Chairman	01/01/2010 – 31/12/2010	181,000.00	7,885.05	-	279,361.47
Mussini Giuliano	Deputy Chairman	01/01/2010 – 31/12/2010	187,000.00	-	-	-
Mussini Giovanna	Deputy Chairman	01/01/2010 – 31/12/2010	95,000.00	4,403.38	-	81,729.19
Pini Giuliano	Managing Director	01/01/2010 – 31/12/2010	121,000.00	5,699.89	-	316,939.92
Mussini Giuseppe	Managing Director	01/01/2010 – 31/12/2010	121,000.00	5,396.38	-	257,730.94
Mussini Andrea	Managing Director	01/01/2010 – 31/12/2010	99,000.00	4,625.66	-	125,880.77
Mussini Paolo	Managing Director	01/01/2010 – 31/12/2010	121,000.00	8,579.15	-	249,856.38
Mussini Marco	Director	01/01/2010 – 31/12/2010	63,000.00	8,032.99	-	231,975.04
Iori Alessandro	Director	01/01/2010 – 31/12/2010	36,000.00	-	6,000.00	-
Burani Giovanni Walter	Director	01/01/2010 – 23/04/2010	11,145.21	-	2,000.00	-
Palandri Enrico	Director	24/04/2010 – 31/12/2010	24,854.79	-	-	-
Onofri Paolo	Director	01/01/2010 – 31/12/2010	36,000.00	-	2,000.00	-
Ascari Pier Giovanni	Chairman of the Board of Statutory Auditors	01/01/2010 – 31/12/2010	26,250.00	-	-	-
Tabone Francesco	Standing auditor	01/01/2010 – 31/12/2010	18,000.00	-	-	-
Pincelli Vittorio	Standing auditor	01/01/2010 – 31/12/2010	18,000.00	-	-	-
			1,158,250.00	44,622.50	10,000.00	1,543,473.71

- (1) Includes: (i) emoluments approved by the shareholders' meeting or in accordance with art. 2389.2 of the Italian Civil Code even though not paid; (ii) any allocation of earnings (the amount must be shown on an accruals basis even if the shareholders' meeting for approving the financial statements and distribution of income has not yet taken place); (iii) attendance fees; (iv) general expense refunds.
- (2) Includes fringe benefits (according to whether they are taxable) and any insurance policies.
- (3) Includes *one-off payments* (not including stock options granted or exercised)
- (4) Includes: (i) emoluments for offices held in quoted and unquoted subsidiary companies; (ii) employment income (gross of social security charges and taxes payable by the employee, excluding social security charges payable by the company and severance indemnities); (iii) emoluments for termination of office. - Specify the basis on which emoluments have been paid

EXPLANATORY NOTES - ATTACHMENT 5

- Directors and Officers

Board of Directors

	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 of Directors in its entirety.

The Board of Directors' term in office expires at the AGM that approves the 2010 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

Independent Auditors

Deloitte & Touche S.p.A.

EXPLANATORY NOTES - ATTACHMENT 6

- Disclosure required by article 149-duodecies of the CONSOB Issuer Regulations

Type of services	Party providing the services	Recipient	Fees earned in 2010
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	157
	Deloitte & Touche S.p.A.	Florida Tile	75
	Deloitte & Touche S.A.	Gres Panaria Portugal s.a. (*)	40
Total			272

(*) Wholly owned by Panariagroup S.p.A.

EXPLANATORY NOTES - ATTACHMENT 6

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

ATTACHMENT 3C-ter

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

1. The undersigned Mussini Paolo, Mussini Andrea, Mussini Emilio, Mussini Giuseppe, Pini Giuliano, as Managing Directors, and Quarta Damiano, 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 consolidated financial statements during the period ended 31 December 2010.

2. No matters in this regard arose during the period.

3. We also certify that

3.1 the 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 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.

Finale Emilia, 25 March 2011

Managing Directors
Mussini Paolo
Mussini Andrea
Mussini Emilio
Mussini Giuseppe
Pini Giuliano

Financial Reporting Manager
Damiano Quarta



PANARIAGROUP

Financial Statements extra-UE Controlled Companies

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

BALANCE SHEET

(THOUSANDS OF DOLLARS)

<u>ASSETS</u>	<u>31/12/2010</u>	<u>31/12/2009</u>
CURRENT ASSETS	52.717	51.334
Inventories	35.499	38.435
Trade Receivables	13.384	8.119
Due from tax authorities	6	6
Other current assets	1.885	1.940
Cash and cash equivalents	1.943	2.834
NON-CURRENT ASSETS	37.597	39.240
Goodwill	0	0
Intangible assets	2.188	2.454
Property, plant and equipment	19.744	20.266
Financial assets	14.460	15.306
Deferred tax assets	1.055	1.038
Other non-current assets	150	176
TOTAL ASSETS	90.314	90.574
<u>LIABILITIES</u>	<u>31/12/2010</u>	<u>31/12/2009</u>
CURRENT LIABILITIES	31.561	27.660
Due to banks and other sources of finance	3.872	2.904
Trade payables	25.232	20.987
Due to tax authorities	256	340
Other current liabilities	2.201	3.429
NON-CURRENT LIABILITIES	36.281	36.631
Employee severance indemnities	0	0
Deferred tax liabilities	0	0
Provisions for risks and charges	313	787
Due to banks and other sources of finance	35.258	35.169
Other non-current liabilities	710	675
TOTAL LIABILITIES	67.842	64.291
EQUITY	22.472	26.283
Share capital	53.020	53.020
Reserves	(26.737)	(16.275)
Net profit for the year	(3.811)	(10.462)
TOTAL LIABILITIES AND EQUITY	90.314	90.574

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS

(THOUSANDS OF DOLLARS)

	31/12/2010		31/12/2009	
REVENUES FROM SALES AND SERVICES	83.266	99,8%	66.055	98,5%
	–	0,0%	–	0,0%
Change in inventories of finished products	(3.065)	-3,7%	(2.291)	-3,4%
Other revenues	3.250	3,9%	3.313	4,9%
VALUE OF PRODUCTION	83.451	100,0%	67.077	100,0%
Raw materials	(36.471)	-43,7%	(27.122)	-40,4%
Services, leases and rentals	(25.576)	-30,6%	(22.532)	-33,6%
Personnel costs	(19.386)	-23,2%	(20.224)	-30,2%
Change in inventories of raw materials	–	0,0%	–	0,0%
Other operating expenses	(1.446)	-1,7%	(1.376)	-2,1%
PRODUCTION COSTS	(82.879)	-99,3%	(71.254)	-106,2%
GROSS OPERATING PROFIT	572	0,7%	(4.177)	-6,2%
Amortisation and depreciation	(3.430)	-4,1%	(3.373)	-5,0%
Provisions and writedowns	(192)	-0,2%	(1.872)	-2,8%
Non recurring Provisions and Writedowns	–	0,0%	–	0,0%
NET OPERATING PROFIT	(3.050)	-3,7%	(9.422)	-14,0%
Financial income (expense)	(522)	-0,6%	(925)	-1,4%
PRE-TAX PROFIT	(3.572)	-4,3%	(10.347)	-15,4%
Income taxes	(239)	-0,3%	(115)	-0,2%
NET PROFIT	(3.811)	-4,6%	(10.462)	-15,6%