PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

DRAFT CONSOLIDATED ANNUAL REPORT 2011

Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia (MO)
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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, 2011, 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, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on March 31, 2011.

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, 2011, 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, 2011.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
March 30, 2012

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 2011

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

Introduction

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

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:

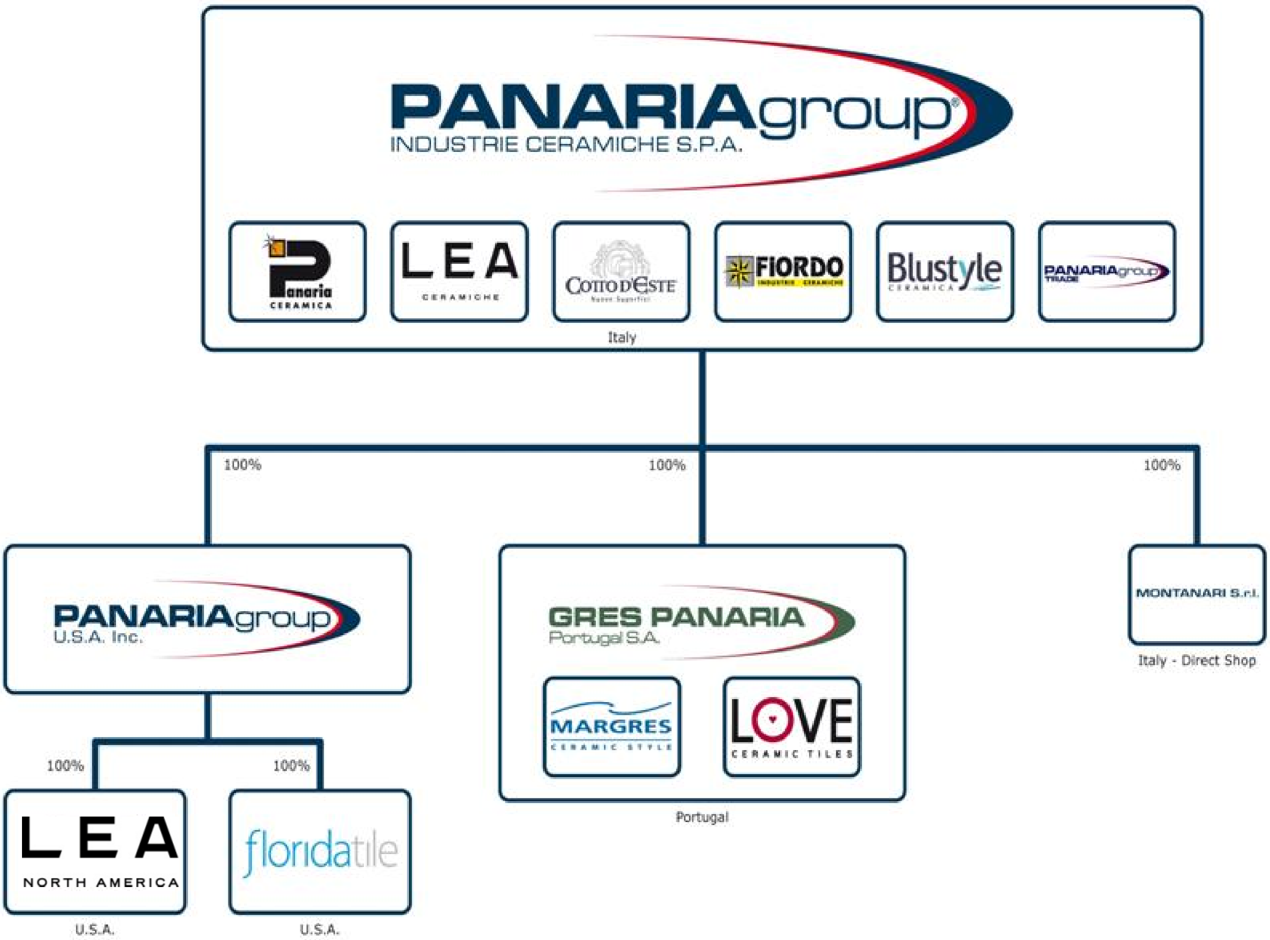
- as of 31 December 2011 three of the companies controlled by Panariagroup come under these regulations: Panariagroup USA Inc., Florida Tile Inc. and Lea North America LLC;

- 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 2011 is as follows:



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

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

Gres Panaria Portugal S.A, based in Chousa Nova, Ilhavo (Portugal), share capital of Euro 16,500,000, subscribed and paid in, wholly owned by Panariagroup Industrie Ceramiche S.p.A.
It produces ceramic tiles for floors and walls under two separate brand names, Margres and Love Tiles, both aimed at the main European markets.

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

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

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

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

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

(*) Independent non-executive director

Board of Statutory Auditors

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

Independent Auditors

Deloitte & Touche S.p.A.

Directors' Report on the 2011 Consolidated Financial Statements

Results and significant events in 2011

Results

Shareholders,

For the main industrialized countries, 2011 featured a positive first quarter followed by a new period of economic crisis; emerging nations, on the other hand, enjoyed strong growth, though at lower rates than in previous years.
Considering that our main production and marketing activities are concentrated in industrialized countries which are more subject to negative economic consequences, and given the resumption of pressure on energy prices, thanks to improvements in industrial efficiency, substantial stability in selling prices and a moderate increase in sales, our Group managed to achieve good results in 2011, while maintaining its strong financial structure, despite having made considerable strategic investments.

- In 2011 consolidated revenues from sales amounted to Euro 291.4 million, an increase of 2.2% on 2010 (+6.2 million). This is an excellent result considering the difficulties encountered in European markets, which were adversely affected by the delicate state of the economy, which has heavily penalised industry, ours included.
- The gross operating profit amounted to Euro 25.6 million, with a decrease versus 2010 (-2.6 million); the negative impact on operating margins were determined by increases in energy prices (natural gas and electricity) and the cost of raw materials.
- The net operating profit was of Euro 5 million reporting a decline compared with Euro 6.5 million in 2010.
- The consolidated net profit was Euro 1.6 million, slightly up with respect to Euro 1.4 million in 2010, thanks to the lower tax burden.

Significant events

The second porcelain gres laminate production line was completed at the Fiorano Modenese plant during 2011 and has been up and running since September 2011. Customers' appreciation of this type of product can be explained by its technical characteristics, as it is lighter, more resistant and more versatile thanks to the use of innovative technology that allows us to make gres ceramic sheets in very large formats (up to 3m x 1m) that are extremely thin (only 3mm). Moreover, porcelain gres laminate uses up to one third less natural resources (raw materials, energy) in the production process and in transportation compared with traditional porcelain gres, thereby demonstrating that it is a very environmentally-friendly product. The Group is currently the largest manufacturer of this type of product in the world.

During 2011, the Group continued to develop markets in Asia and the Middle East. This was done through "Panariagroup Trade", which was set up in 2010, becoming fully operational in these markets during 2011.

The international economy and industry trends

After a promising start to the year, world economic conditions gradually deteriorated. There was in fact a distinct slowdown in production and international trade, whereas from the beginning of the summer it became evident that the critical nature of the public debt situation of certain Euro-zone countries returned to the fore, together with considerable doubts about the financial solidity of much of its banking system.

Falling levels of confidence, tensions in credit markets and increased volatility in raw materials and energy prices became associated with renewed concerns about the financial picture. In addition to the marked deceleration in the most industrialized part of the world, various emerging economies also showed signs of slowing down.

As regards the building industry, differing trends could be seen in Western countries: the unfavourable cycle in Europe continued, whereas positive signs of the certain importance came from North America. Emerging nations, on the other hand, turned in good results, even robust expansion in some cases.

Italian ceramic tile producers confirmed their international leadership in 2011, with exports representing more than 70% of their output. Italian companies have been able to counteract the decline in volume on the domestic market (-5.4%) with good growth in international markets (+3.1%), resulting in an overall positive balance of 0.6%.

Thanks to its high-end/deluxe positioning and proven ability to offer products that are technically and aesthetically innovative, in 2011 Panariagroup turned in good growth in the domestic market (+3.2%), in sharp contrast to its Italian competitors. On foreign markets, it has generally experienced good growth, with the exception of the Portuguese market, which has been hit hard by the recession in this country.

According to forecasts by Confindustria Ceramica, expectations for the Italian ceramic industry in 2012 are a further drop in consumption in the domestic market (-3%), offset by moderate growth on foreign markets (+1.3%). There are still very positive expectations for consumption in the Far East, North America and Eastern Europe.

Review of the Group's 2011 results

Income statement at 31 December 2011 compared with 31 December 2010

(in thousands of euro)

YTD	December 31, 2011	%	December 31, 2010	%	var.
Revenues from sales and services	**291,397**	**95.97%**	**285,179**	**97.50%**	**6,218**
Changes in inventories of finished products	6,199	2.04%	3,111	1.06%	3,088
Other revenues	6,040	1.99%	4,210	1.44%	1,830
Value of Production	**303,636**	**100.00%**	**292,500**	**100.00%**	**11,136**
Raw, ancillary and consumable materials	(81,440)	-26.82%	(76,087)	-26.01%	(5,353)
Services, leases and rentals	(123,044)	-40.52%	(115,761)	-39.58%	(7,283)
Personnel costs	(70,701)	-23.28%	(69,863)	-23.88%	(838)
Changes in inventories of raw materials	165	0.05%	405	0.14%	(240)
Other operating expenses	(2,989)	-0.98%	(2,941)	-1.01%	(48)
Cost of production	**(278,009)**	**-91.56%**	**(264,247)**	**-90.34%**	**(13,762)**
Gross operating profit	**25,627**	**8.44%**	**28,253**	**9.66%**	**(2,626)**
D&A expenses	(17,621)	-5.80%	(17,402)	-5.95%	(219)
Provisions and impairments	(3,051)	-1.00%	(4,371)	-1.49%	1,320
Net operating profit	**4,955**	**1.63%**	**6,480**	**2.22%**	**(1,525)**
Financial income and expense	(2,954)	-0.97%	(2,058)	-0.70%	(896)
Pre-tax profit	**2,001**	**0.66%**	**4,422**	**1.51%**	**(2,421)**
Income taxes estimated	(450)	-0.15%	(2,978)	-1.02%	2,528
Net profit for the period	**1,551**	**0.51%**	**1,444**	**0.49%**	**107**
					0
Cash Flow	**22,223**	**7.32%**	**23,217**	**7.94%**	**(994)**

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

Consolidated revenues

Revenues from sales turned in growth of 2.2%, rising from Euro 285.2 million at 31 December 2010 to Euro 291.4 million at 31 December 2011 (+ Euro 6.2 million).

Principal markets

Our Group has seen a rising trend in all the main areas of reference, with good growth in the Italian market, the U.S.A. and Asia.

<u>Europe</u>

Turnover has remained more or less stable in all of the main European countries; significant increases have been achieved in German-speaking countries, in Spain and in certain Eastern European countries, whereas there has been a significant drop in sales in Portugal. This is due to the critical conditions prevailing in the Portuguese economy, which has had a fairly drastic impact on the building industry.

The European market's share of total sales comes to around 40%.

<u>Italy</u>

There has been good growth of 3.2% on the Italian market; this figure is extremely positive when compared with the performance of the sector which, according to recent surveys by Confindustria Ceramica, lost 3.1% in 2011 compared with the previous year. Once again, our Group's innovative products, particularly those in porcelain gres laminate, have helped increase our presence in the domestic market, despite the contraction in investment in both residential and commercial construction.

The European market's share of total sales comes to around 29%.

North America

The U.S. market reported an increase in US dollar sales of more than 10%. This is attributable not only to a good performance on the part of Florida Tile, the U.S. subsidiary, but also to good results on the part of the Italian brands.

The improvement in 2011 follows the good growth achieved in the previous year, giving more impetus to the positive trend. This, together with the positive signals (consumption, employment, cash) coming from the U.S. economy in the last quarter, creates good expectations for the coming year.

The U.S. market's share of total sales comes to around 22%.

Asia, Oceania and Africa

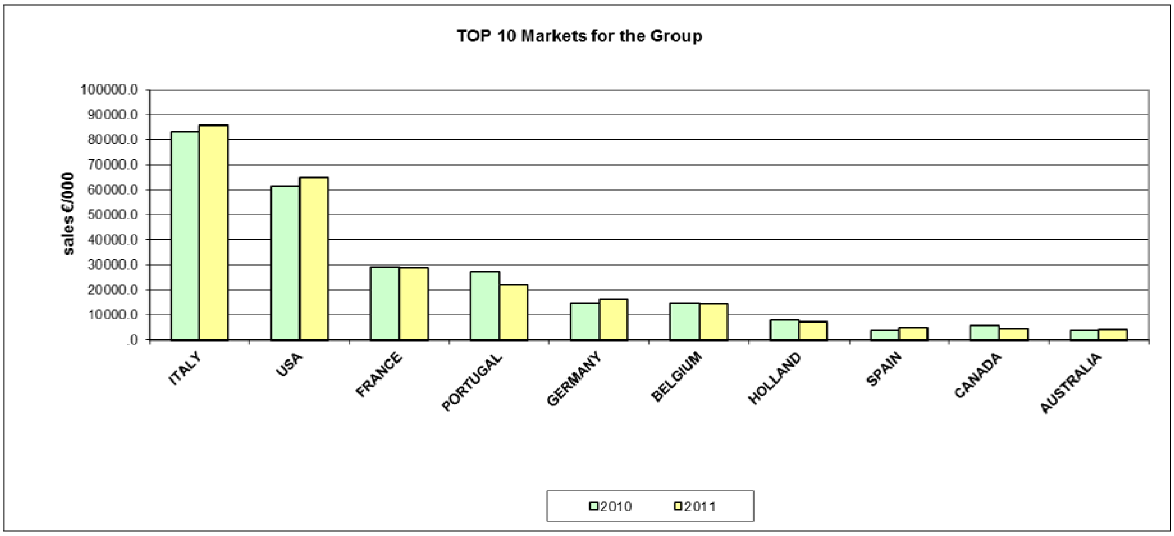
Thanks to the Group's commercial organisation, overseas markets (Asia, Oceania and Africa) have achieved excellent growth in 2011, with turnover up by 4.6 million Euro compared with 2010.

The market's share of total sales comes to around 9% in these continents.

The following table provides a breakdown of sales to the Group's principal markets.

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

rk	Nation	December 31, 2011	December 31, 2010	var.	%
1	ITALY	85,743	83,103	2,640	3.2%
2	USA	64,784	61,642	3,142	5.1%
3	FRANCE	28,939	29,061	(122)	-0.4%
4	PORTUGAL	22,298	27,184	(4,886)	-18.0%
5	GERMANY	16,116	14,758	1,358	9.2%
6	BELGIUM	14,648	14,936	(288)	-1.9%
7	HOLLAND	7,201	7,986	(785)	-9.8%
8	SPAIN	4,695	3,888	807	20.8%
9	CANADA	4,498	5,841	(1,343)	-23.0%
10	AUSTRALIA	4,327	3,769	558	14.8%
	OTHERS	42,766	37,714	5,052	13.4%
	TOTAL	**296,015**	**289,882**	**6,133**	**2.1%**



As explained earlier, sales on the U.S. market are up by more than 10% in local currency; however, depreciation of the dollar (with an average exchange rate against the euro of 1.39 in 2011 compared with 1.32 in 2010) makes the increase in euros (+5.1%) less evident.

Among the Top 10, in addition to the previously reported decline in the Portuguese market, we also have to report a negative performance on the part of the Canadian market; this slowdown in turnover was expected in view of the exceptional results achieved in 2010.

"Other" includes sales to Asian markets for 15.9 million euro, an increase of 3.0 million compared with 2010.

In terms of sales of individual brands, the Italian business unit had excellent results with the Lea, Fiordo and Cotto d'Este brands, with growth of up to 15%; also very satisfactory is the success of Blustyle, the Group's newest brand, which is progressing as planned; the Panaria brand has slowed down slightly.

On the overseas front, the Florida Tile American brand continue to make progress, increasing its revenues by more than 10% in dollar terms, driven mainly by the excellent performance of its stores.

The revenues of the Portuguese brands, Margres and Love Tiles, are both down on last year; however, this reduction, of around 10%, can be considered relatively limited given the difficult country scenario in which they operate. It is worth noting that the Portuguese company Gres Panaria Portugal carried out a major reorganization during the second half of 2011, integrating the two existing sales structures (previously divided by brand); this change should improve the company's commercial effectiveness in all of its markets.

Operating results

Gross operating profit came to Euro 25.6 million, representing 8.4% of sales revenues (Euro 28.3 million at 31 December 2010).

The following factors have had a negative impact on Group margins compared with 2010:

- the increase in energy prices of electricity and natural gas; the increases for the European business units came to 10.1% and 22.4% respectively, hitting the income statement for an extra 3.6 million Euro;
- the increase in raw material prices (for feldspar and zirconium) and higher costs for their transport; the impact on the income statement is put at around Euro 1.3 million.

The **net operating profit** comes to Euro 5 million (Euro 6.5 million at 31 December 2010).

The level of depreciation and amortisation is more or less in line with 2010.

The deterioration in the result of financial management compared with 2010 is almost entirely due to differing trends in the euro/dollar exchange rate for the two years, with lower exchange gains in 2011. Interest expense, on the other hand, remained at much the same level as last year.

The **pre-tax result is positive** for Euro 2.0 million (Euro 4.4 million at 31 December 2010).

The tax burden is Euro 0.5 million, compared with 3.0 million in the previous year.

The **consolidated net profit** amounted to Euro 1.6 million (Euro 1.4 million in 2010).

Review of the balance sheet

Summary of the financial situation

(in thousands of euro)

	December 31, 2011	December 31, 2010
Inventories	142,134	134,943
Accounts Receivable	82,997	83,647
Other current assets	6,436	8,095
CURRENT ASSETS	**231,567**	**226,685**
Accounts Payables	(62,306)	(59,947)
Other current liabilities	(26,506)	(27,145)
CURRENT LIABILITIES	**(88,812)**	**(87,092)**
NET WORKING CAPITAL	**142,755**	**139,593**
Goodwill	12,789	12,789
Intangible assets	2,697	3,187
Tangible assets	92,221	90,218
Equity Investments and other financial fixed assets	5	4
FIXED ASSETS	**107,712**	**106,198**
Receivables due after the following year	261	278
Provisions for termination benefits	(6,175)	(6,440)
Provisions for risks and charge and deferred taxes	(2,381)	(10,294)
Other payables due after the year	(4,045)	(560)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(12,340)**	**(17,016)**
NET CAPITAL EMPLOYED	**238,127**	**228,775**

Short term financial assets	(3,101)	(2,328)
Short term financial debt	49,316	37,190
NET SHORT TERM FINANCIAL DEBT	**46,215**	**34,862**
Mid-long term financial debt	38,659	43,740
NET FINANCIAL POSITION	**84,874**	**78,602**
Group Shareholders' Equity	153,253	150,173
SHAREHOLDERS' EQUITY	**153,253**	**150,173**
TOTAL SOURCES OF FUNDS	**238,127**	**228,775**

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

Net working capital

The net working capital at the end of 2011 of Euro 142.8 million is Euro 3.2 million higher than in 2010, entirely due to the increase in inventories; this increase has taken place mainly in the American Business Unit, where it was decided to boost production to meet expected growth in sales.

Even though inventories have risen, the Group still maintains a constant focus on stock rationalization, taking initiatives to optimize the product range and manage inventory turnover, article by article.

Trade receivables, on the other hand, have gone down despite the growth in revenues, leading to an improvement in the number of day's sales in receivables. We consider this a very positive outcome, especially given the difficult economic environment.

Non-current assets

Non-current assets have increased by Euro 1.5 million since the start of the year.

This increase reflects:

- net capital expenditure of Euro 18.8 million, of which Euro 13.0 million was invested in Italy, Euro 2.3 million in Portugal and Euro 3.5 million in the United States.
- depreciation and amortisation for the period of Euro 17.6 million.

The change in the euro-dollar exchange rate has marginally affected movements during the year, with a positive impact of Euro 0.3 million.

With regard to the Italian plants, you are reminded that a second porcelain gres laminate production line was completed at the factory in Fiorano Modenese and started up during the second half of the year. The installation of this system will support the growing demand from the market that has been very receptive to this type of product.

Assets and liabilities due beyond 12 months

Assets and liabilities due beyond 12 months decline by 4.7 million Euro versus 2010.

The main changes in the year are:

- The 4.3 million reduction in the provision for taxation, having refunded the tax incentive which the Group had received for listing on the Stock Exchange. In previous years, given the European Union's stance regarding this incentive (considered "State aid"), the Group had budgeted for the estimated cost in the event that this benefit was denied. The dispute was finally closed in 2011 by refunding the amount involved to the Tax Authorities, at the same time releasing the tax provision that had been set aside for this purpose so that there was no impact on the year.
- The recognition of deferred tax assets on the realignment of asset values for tax purposes, Euro 3.7 million.
- The growth in medium-long term amounts due to suppliers (+3.5 million) caused by the agreed payment terms for investments made in towards the end of 2011 and the substitute tax on the realignment of asset values for tax purposes, as explained in greater detail in the notes.

Net financial position

Financial cash flow
(thousands euro)

	December 31, 2011	December 31, 2010
Net financial position (debt) - beginning	**(78,602)**	**(86,781)**
Net Result for the period	1,551	1,444
D & A	17,621	17,402
Net Variation Provisions	(1,953)	3,348
Internal operating Cash flow	**17,219**	**22,194**
Change in net working capital	(1,886)	(4,371)
Dividend distribution	0	0
Net Investments	(18,804)	(10,607)
Reimbursement of tax benefit "State Aid"	(3,999)	0
Other movements	1,198	963
Net financial position (debt) - final	**(84,874)**	**(78,602)**

The net financial position has deteriorated since the beginning of the year by Euro 6.2 million.

Two factors have contributed to this result:

- reimbursement to the tax authorities of the Euro 4 million tax benefit linked to the incentives given to newly listed companies in 2005, which was subsequently considered State Aid by the European Community.

- the sizeable increase in capital expenditure linked to construction of the new porcelain gres laminate line at the Fiorano Modenese plant.

Equity

Equity went up from 150.2 million euro to 153.3 million euro, with an increase of 3.1 million.

This increase was brought about by the net profit for the year of Euro 1.6 million, the translation into Euro of the foreign companies' financial statements for Euro 1.0 million and Euro 0.5 million because of foreign exchange differences on intra-group loans, recorded directly to equity in accordance with IFRS.

Segment information

The application of IFRS 8 – Operating segments became compulsory on 1 January 2009.

This standard requires the identification of operating segments with reference to the system of internal reporting used by senior management to allocate resources and assess performance.

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

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

the information would not be useful to readers of the financial statements.

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

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

- The breakdown of total assets by geographical location is shown below:

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

ASSETS	Italy	Europe	USA	Other	Total
CURRENT ASSETS	**128,033**	**51,613**	**47,963**	**7,712**	**235,321**
Inventories	82,580	25,974	33,580	0	142,134
Trade receivables	40,975	23,974	11,085	7,712	82,997
Due from tax authorities	1,546	2,027	5	0	3,578
Other current assets	1,782	312	1,417	0	3,511
Cash and cash equivalents	1,150	75	1,876	0	3,101
NON-CURRENT ASSETS	**47,372**	**42,410**	**29,856**	**0**	**119,683**
Goodwill	700	12,089	0	0	12,789
Intangible assets	922	228	1,547	0	2,697
Property, plant and equipment	42,269	33,025	16,927	0	92,221
Financial assets	4	0	10,469	0	10,473
Deferred tax assets	3,313	(2,932)	816	0	1,197
Other non-current assets	164	0	97	0	261
TOTAL ASSETS	**175,405**	**94,023**	**77,819**	**7,712**	**354,959**

	Italy	Europe	USA	Other	Total
Investments in tangible assets 2011	**12,619**	**2,280**	**3,289**	**0**	**18,188**

Research and development activities

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

Research and development activities include applied research in our laboratories and the adoption of advanced production technologies.

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

The new product lines created in 2011, and in particular those presented at CERSAIE 2011 (the industry's most important trade fair, both in Italy and world-wide, which took place in September) were much appreciated.

We trust that the successful outcome of these innovations will benefit sales as well as the Group's overall results.

Transactions with parent companies, affiliates and related parties

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

Furthermore, in compliance with CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that the related party transactions described in the explanatory notes almost all relate to the lease of industrial premises 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 profit with the corresponding consolidated amounts reported at 31 December 2011 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	**139,592**	**2,177**
a) Difference between the book value of equity investments and their value using the equity method	13,864	1,237
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(554)	(155)
c) Reversal of exchange losses (gains) on intercompany loan	0	(506)
d) Alignment to Group depreciation's rates	194	(22)
e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	75	8
f) Elimination of unrealised gains arising from dividend distribution	0	(1,188)
g) Others	82	0
h) Write-down of the carrying amount of investments in subsidiaries	0	0
Net effect of consolidation adjustments	**13,661**	**(626)**
As per consolidated financial statements	**153,253**	**1,551**

Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 28 April 2011, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2011:

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

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

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas of ultimate parent companies, nor has it owned or traded in such shares or quotas during 2011, so there are no disclosures to be made in accordance with article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

Atypical and/or unusual transactions

As required by CONSOB Communication DEM/6064293 of 28 July 2006, it is reported that during 2011 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 2011.

Outlook for Group operations

The beginning of 2012 was characterized by strong tensions linked to the government debts of certain countries in the Euro-zone that have continued to push financial markets up and down, while helping to undermine the expectations of recovery from the economic crisis in Western countries. Nevertheless, there persists an awareness in our Group that the world market still offers good growth opportunities, especially in those markets where our presence is still limited. That is where we are focusing our attention more and more.

Even in mature markets we are convinced that the policy of continuous technical and aesthetic innovation of our collections, which distinguish them from those of the competition, will allow us to achieve important competitive advantages to retain market share in this difficult economic environment.

Report on Corporate Governance and the Ownership Structure

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

Risk management

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

GENERAL ECONOMIC RISK

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

CREDIT AND LIQUIDITY RISK

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

RISK OF DEPENDENCE ON KEY PERSONNEL

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

MARKET RISK

Competition risk:

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

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2010 and 2011. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term. However, management believes that the possibility of revising price lists, given the Group's positioning in the high end luxury market which is less sensitive to price variations, should mitigate such effects in the medium term.

Environmental protection, personnel costs and regulations relating to the sector

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

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

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

The average workforce in 2011 was of 1,648 persons, a decrease of 27 employees compared with 2010.

CONSOB resolution 11971 of 14 May 1999

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

- ART. 79 -							
TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 31/12/2011							
Name	Investment held in	Number of shares held at the end of prior year	Number of shares purchased in 2011	Number of shares sold in 2011	Number of shares held at 31/12/2011	Type of holding	Type of ownership
		314,438	191,844		506,282	Direct	Property
Mussini Giuliano	Panariagroup	4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	95,482	47,052		142,534	Direct	Property
		38,468	8,025		46,493	Direct	Property
Pini Giuliano	Panariagroup	2,880			2,880	Spouse	Property
		89,436			89,436	Direct	Property
Mussini Emilio	Panariagroup	3,080			3,080	Spouse	Property
		56,400			56,400	Direct	Property
Mussini Giuseppe	Panariagroup	30,400			30,400	Spouse	Property
Mussini Andrea	Panariagroup	301,559	136,800		438,359	Direct	Property
		22,510	20,050		42,560	Direct	Property
Mussini Marco	Panariagroup	9,340			9,340	Spouse	Property
Mussini Paolo	Panariagroup	30,000	60,000		90,000	Direct	Property
		440			440	Direct	Property
Iori Alessandro	Panariagroup	4,200			4,200	Spouse	Property
Palandri Enrico	Panariagroup	-			-	Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Premoli Trovati Stefano	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property
	TOTALE	**1,003,033**	**463,771**	**-**	**1,466,804**		

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2011
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2010
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Sassuolo, 15 March 2012

Emilio Mussini

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

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

STATEMENT OF FINANCIAL POSITION- IFRS

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

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

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

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

PANARIA group INDUSTRIE CERAMICHE S.P.A.

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	RIF
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	RIF
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	RIF
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 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 the 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 the long-term financial indebtedness in the reclassified statement of financial position

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.

		31/12/2011	
	Short-term securities	(654)	
A	Cash and cash equivalents	(3,101)	
	Short-term financial assets	**(3,755)**	
	Long-term securities	(10,467)	
	Long-term financial assets	**(10,467)**	
B	Due to banks	29,514	
	Current portion of long-term loans	19,797	
	Leases	658	
	Short-term financial indebtedness	**49,969**	
	Non-current portion of long-term loans	38,660	
	Leases	10,467	
	Long-term financial indebtedness	**49,127**	
C	**Net indebtedness**	**84,874**	
	Net short-term financial indebtedness	**26,413**	**= A + B**
	(as reported in IFRS cash flow statement)		
	Total net financial position	**84,874**	**= C**
	(as reported in summary of cash flow contained in the Directors' Report)		

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

CASH FLOW STATEMENT-IFRS

(THOUSANDS OF EURO)

(in thousands of euro)	31/12/2011	
A - OPERATIONS		
Net profit of the year	1,551	A
Depreciation and amortisation	17,621	B
Deferred tax liabilities (assets)	(3,635)	C
Net change in tax provision for "state aid"	(3,999)	D
Net change in provisions	1,682	E
Cash flow (absorption) of operations prior to changes in working capital	*13,220*	
(Increase)/decrease in trade receivables	(1,205)	
(Increase)/decrease in inventories	(7,562)	
Increase/(decrease) in trade payables	2,359	
Net change in other assets/liabilities	4,522	
Cash flow (absorption) from operations due to changes in working capital	*(1,886)*	F
Total (A) Cash flow from operations	**11,334**	
B - INVESTMENT ACTIVITY		
Net investment in property, plant and equipment and intangible assets	(18,804)	H
Net investment in financial assets		J
Exchange difference on property, plant and equipment and intangible assets	(332)	K
Total (B) Cash flow (absorption) from investment activity	**(19,136)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
Net change in loans	(537)	
Total (C) Cash flow (absorption) from financing activities	**(537)**	
Opening net cash (indebtedness)	**(19,603)**	
Change in the translation reserve	**1,529**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**(8,339)**	
Closing net cash (indebtedness)	**(26,413)**	(X)

Summary of cash flows
(in thousands of Euro)

	31/12/2011	
Financial position - opening balance	**(78,602)**	
Net profit for the period	1,551	A
Depreciation and amortisation	17,621	B
Net change in other provisions	(1,953)	C+E
Self-financing	**17,219**	
Change in net working capital	(1,886)	F
Dividends	0	G
Net investments	(18,804)	H +J
Reimbursement of tax benefit "State Aid"	(3,999)	D
Other changes	1,198	M + N + K
Financial position - closing balance	**(84,874)**	(Z)

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

rif	ASSETS	31/12/2011	31/12/2010
	CURRENT ASSETS	**235,321**	**229,646**
1.a	Inventories	142,134	134,943
1.b	Trade Receivables	82,997	83,647
1.c	Due from tax authorities	3,578	5,717
1.d	Other current assets	3,511	3,011
1.e	Cash and cash equivalents	3,101	2,328
	NON-CURRENT ASSETS	**119,638**	**117,245**
2.a	Goodwill	12,789	12,789
2.b	Intangible assets	2,697	3,187
2.c	Property, plant and equipment	92,221	90,218
2.d	Financial assets	10,473	10,773
2.e	Deferred tax assets	1,197	0
2.f	Other non-current assets	261	278
	TOTAL ASSETS	**354,959**	**346,891**

	LIABILITIES	31/12/2011	31/12/2010
	CURRENT LIABILITIES	**138,781**	**124,915**
3.a	Due to banks and other sources of finance	49,969	37,823
3.b	Trade payables	62,306	59,947
3.c	Due to tax authorities	2,324	3,310
3.d	Other current liabilities	24,182	23,835
	NON-CURRENT LIABILITIES	**62,925**	**71,803**
4.a	Employee severance indemnities	6,175	6,440
4.b.	Deferred tax liabilities	0	2,438
4.c	Provisions for risks and charges	3,578	7,856
4.d	Due to banks and other sources of finance	49,127	54,509
4.e	Other non-current liabilities	4,045	560
	TOTAL LIABILITIES	**201,706**	**196,718**
5	**EQUITY**	**153,253**	**150,173**
	Share capital	22,678	22,678
	Reserves	129,024	126,051
	Net profit for the year	1,551	1,444
	TOTAL LIABILITIES AND EQUITY	**354,959**	**346,891**

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

PANARIAgroup INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS

(THOUSANDS OF EURO)

rif		31/12/2011		31/12/2010	
6.a	**REVENUES FROM SALES AND SERVICES**	**291,397**	**96.0%**	**285,179**	**97.5%**
	Change in inventories of finished products	6,199	2.0%	3,111	1.1%
6.b	Other revenues	6,040	2.0%	4,210	1.4%
	VALUE OF PRODUCTION	**303,636**	**100.0%**	**292,500**	**100.0%**
7.a	Raw materials	(81,440)	-26.8%	(76,087)	-26.0%
7.b	Services, leases and rentals	(123,044)	-40.5%	(115,761)	-39.6%
	of which, related party transactions	*(5,132)*	*-1.7%*	*(5,096)*	*-1.7%*
7.c	Personnel costs	(70,701)	-23.3%	(69,863)	-23.9%
	Change in inventories of raw materials	165	0.1%	405	0.1%
7.d	Other operating expenses	(2,989)	-1.0%	(2,941)	-1.0%
	PRODUCTION COSTS	**(278,009)**	**-91.6%**	**(264,247)**	**-90.3%**
	GROSS OPERATING PROFIT	**25,627**	**8.4%**	**28,253**	**9.7%**
8.a	Amortisation and depreciation	(17,621)	-5.8%	(17,402)	-5.9%
8.b	Provisions and writedowns	(3,051)	-1.0%	(4,371)	-1.5%
	NET OPERATING PROFIT	**4,955**	**1.6%**	**6,480**	**2.2%**
9.a	Financial income (expense)	(2,954)	-1.0%	(2,058)	-0.7%
	PRE-TAX PROFIT	**2,001**	**0.7%**	**4,422**	**1.5%**
10.a	Income taxes	(450)	-0.1%	(2,978)	-1.0%
	NET PROFIT	**1,551**	**0.5%**	**1,444**	**0.5%**
	BASIC AND DILUTED EARNING PER SHARE	**0.03**		**0.03**	

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

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

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31/12/2011	31/12/2010
NET PROFIT (LOSS) FOR THE PERIOD	**1,551**	**1,444**
OTHER COMPONENTS OF COMPREHENSIVE INCOME		
Exchange rate differences from foreign operations	1,529	2,215
COMPREHENSIVE INCOME FOR THE PERIOD	**3,080**	**3,659**

(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	
	2011	**2010**
A - OPERATIONS		
Net Result of the period	1,551	1,444
Amortisation, depreciation and impairments	17,621	17,402
Deferred tax liabilities (assets)	(3,635)	(480)
Net change in tax provision for "state aid"	(3,999)	-
Net change in provisions	1,682	3,828
Cash flow (absorption) from operations prior to changes in working capital	*13,220*	*22,194*
(Increase)/Decrease in trade receivables	(1,205)	1,548
(Increase)/Decrease in inventories	(7,562)	(6,291)
(Increase)/Decrease in trade payables	2,359	2,843
Net change in other current assets/liabilities	4,522	(2,471)
Cash flow (absorption) from operations due to changes in working capital	*(1,886)*	*(4,371)*
TOTAL (A) CASH FLOW FROM OPERATIONS	**11,334**	**17,823**
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(18,804)	(10,607)
Net investment in financial assets	-	-
Exchange difference on tangible and intangible assets	(332)	(1,252)
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(19,136)**	**(11,859)**
C - FINANCING ACTIVITY		
Increase in capital	-	-
Distribution of dividends	-	-
Other changes in equity	-	-
(Purchase) Sale of treasury shares	-	-
Net change in loans	(537)	(4,505)
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**(537)**	**(4,505)**
Opening net cash (indebtedness)	**(19,603)**	**(23,277)**
Change in the translation reserve	**1,529**	**2,215**
Net change in net short-term cash (indebtness) (A+B+C)	**(8,339)**	**1,459**
Closing net cash (indebtness)	**(26,413)**	**(19,603)**
Supplementary information		
Interest paid	2,149	1,662
Income taxes paid	8,665	3,605

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

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

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in consolidated equity from 1 January 2010 to 31 December 2011

(THOUSANDS OF EURO)	*Share capital*	*Share premium reserve*	*Revaluation reserves*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2010	**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 share									
Distribution of dividends									
Net result 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 of foreign company financial statements into Euro						1,023			1,023
Exchange difference on loans to foreign companies						506			506
Total gains (losses) booked directly to equity						**1,529**			**1,529**
Allocation of net profit				104	1,340			(1,444)	
Sale (Purchase) of treasury share									
Distribution of dividends									
Net result for the year								1,551	1,551
Balance as of 31.12.2011	**22,678**	**60,783**	**4,493**	**3,472**	**41,742**	**395**	**18,139**	**1,551**	**153,253**

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

PANARIAGROUP

EXPLANATORY NOTES

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

INTRODUCTION

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

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

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

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 2011 (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 includes:

- The consolidated balance sheet at 31 December 2011 with comparative figures at 31 December 2010. The balance sheet has been drawn up in a declining liquidity format, as decided at the time of the transition to IFRS, with current and non-current assets and liabilities shown separately based on a 12-month operating cycle.

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

- The consolidated income statement for the year ended 31 December 2011, with comparative figures for the year ended 31 December 2010.

  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 2011 with comparative figures for the year ended 31 December 2010, presented in accordance with the requirements of IAS 1 revised.

- A consolidated cash flow statement for 2011 and 2010. 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 2010 to 31 December 2011.

- The explanatory notes (with related attachments).

1) General information on the Group

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

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

The other companies included in the scope of consolidation are:

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

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 2010.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements at 31 December 2011 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 accounting policy for the Maronagres goodwill as 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 balance sheet date, the Group reviews the book value of its tangible and intangible assets for any signs that these assets may have suffered a loss in value. If there are signs that this is the case, the recoverable value of such assets is estimated so as to determine the amount of the writedown. When it is not possible to estimate the recoverable value of an asset individually, the Group makes an estimate of the recoverable value of the cash generating unit (CGU) to which the asset belongs.

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

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

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

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

Leases

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

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

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

Inventories

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

Trade receivables

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

Financial assets

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

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

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

Cash and cash equivalents

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

Derivatives

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

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

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

Allowances

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

Post-employment benefits

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

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

Trade payables

Trade payables are booked at their face value.

Financial liabilities and equity instruments

The financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual agreements that generated them and according to the respective definitions of financial liabilities and equity instruments. The latter are defined as contracts that give a right to benefit from the residual interests in the Group's assets after all liabilities have been deducted. The accounting principles used for specific financial liabilities and equity instruments are indicated below.

Equity instruments

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

Bank loans

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

Treasury shares

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

Revenue recognition

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

Foreign currency transactions

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

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

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

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

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

	31/12/2011	31/12/2010
Average exchange rate for the period	1.3920	1.3257
Current exchange rate at the balance sheet date	1.2939	1.3362

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

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

Government grants

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

Income taxes

Income taxes 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet, income statement and cash flow statement, as well as the other information provided in the report. The following is a brief description of the accounting principles that, more than others, require greater subjectivity on the part of management in making such estimates and for which a change in the conditions underlying the assumptions made can have a significant impact on the Group's consolidated financial statements.

Goodwill – Estimate of the degree of recoverability

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

Inventory valuation and provision for slow-moving and obsolete goods

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

Provision for bad and doubtful accounts

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

Deferred tax assets

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

Contingent liabilities

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS – ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

Related parties

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

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

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

Revised version of IAS 24 – Related Party Disclosures

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

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

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;

Improvement to IAS/IFRS (2010).

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

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

On 12 November 2009 IASB issued IFRS 9 – Financial instruments: this standard was then amended on 28 October 2010. The standard, which is applicable from 1 January 2015, represents the first part of a process that consists of a number of stages. The purpose is to replace IAS 39 in its entirety, introducing new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. 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 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 amendments apply from 1 July 2011 on a prospective basis.

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. The principle is applicable retrospectively from 1 January 2012.

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

On 12 May 2011, the IASB issued IFRS 11 - Share-based Agreements, which will replace IAS 31 - Equity Investments in Joint Ventures and SIC-13 - Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The new standard provides criteria for identifying partnership agreements based on the rights and obligations arising from agreements rather than on their legal form and provides that the only method of accounting for equity investments in jointly controlled entities in the consolidated financial statements is the equity method. The principle is applicable retrospectively from 1 January 2013. Following the issuance of this standard, IAS 28 - Equity Investments in Associated Companies was amended to include equity investments in jointly controlled entities within its scope from the effective date of the standard.

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

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

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

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

At the date of these consolidated financial statements, the EU authorities had not yet concluded the process of approving these amendments; this will be necessary before it can be applied.

Financial risks and derivatives

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

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

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars.
Exchange rate risk mainly arises from the sale of finished products to the US market, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.
In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps.
See the "Financial income and expense" section of these notes for the sensitivity analysis required by IFRS 7.

b) Credit risk

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

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

c) Interest rate risk

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

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

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

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group's objective is to ensure that it can 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) 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.

4) comments on the principal asset captions

1. CURRENT ASSETS

1.a. Inventories

Inventories are analysed as follows at 31 December 2011:

	31/12/2011	**31/12/2010**
Raw, ancillary and consumable materials	12,204	11,034
Work in progress	2,003	1,512
Finished products	125,495	119,513
Buildings held for sale	2,432	2,883
	142,134	**134,942**

The overall value of inventories has increased (+5.3%) compared with the start of the year. This increase is the result of higher stocks in terms of square metres (+2.5%) and a significant rise in costs because of price hikes for certain important production factors (energy, clays, packaging).

Inventories are shown net of a provision for obsolescence of Euro 13,107 thousand at 31 December 2011 (Euro 12,931 thousand at 31 December 2010), 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 2,432 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:

	31/12/2011	31/12/2010
Trade receivables	88,190	87,351
Provision for bad and doubtful accounts	(5,193)	(3,704)
	82,997	**83,647**

Gross trade receivables are up slightly (+1%) compared with 31 December 2010, less than proportionally to the growth in revenue.

"Trade receivables" include around Euro 5,031 million in amounts over 120 days past due (corresponding to about 5.7 % of total receivables), for which there is a provision for bad and doubtful accounts of Euro 5.2 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. The provision for bad and doubtful accounts has been increased since the previous year to reflect the higher risk of collection in certain markets where the Group operates, because of the ongoing difficult economic climate.

At 31 December 2011 a total of around Euro 0.9 million in amounts due from customers were guaranteed by "preliminary agreements" for the sale of apartments (around Euro 1.0 million at 31 December 2010). In January 2011, the Group collected Euro 185 thousand for one of the receivables guaranteed by these preliminary agreements, more or less its book value.

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

1.c. Due from tax authorities

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

	31/12/2011	31/12/2010
VAT receivable	1,298	3,963
Advance tax payments	1,690	1,169
Other amounts due from tax authorities	590	585
	3,578	**5,717**

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

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

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

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

1.d. Other current assets

This caption is made up as follows:

	31/12/2011	31/12/2010
Advances to social security institutions	349	279
Advances to suppliers	397	317
Rebates from suppliers and credit notes to be received	245	168
Loans to employees/third parties	260	294
IRB – Current portion	654	633
Grants to be received	192	-
Other	208	98
Total other current receivables	**2,305**	**1,789**
- prepaid rents	558	537
- accrued and prepaid insurance premiums	156	187
- other accrued income and prepaid expenses	492	498
Total current accrued income and prepaid expenses	**1,206**	**1,222**
	3,511	**3,011**

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

The prepaid rents of Euro 558 thousand at 31 December 2011 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:

	31/12/2011	31/12/2010
Bank and post office deposits	3,055	2,274
Cheques	-	-
Cash and equivalents on hand	46	54
	3,101	**2,328**

The changes in financial position in 2011, compared with 2010, 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 2011: 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 2011: 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 2011: 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 expires on 21/10/2009;
- a personal guarantee given by the previous shareholders for Euro 800 thousand, with a duration of 7 years that expires on 21/10/2009.

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

- 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, the Group tests goodwill for impairment in accordance with IAS 36 at least once a year, even if there is no evidence of loss, and always whenever there are signs that it might be impaired; if there are indications of potential problems, the verification of recoverability is extended to cover the residual value of the tangible and intangible assets shown in the consolidated financial statements.

Impairment tests were carried out as required at the time the 2011 financial statements were closed: this means that the Company has identified the Cash Generating Units ("CGU") which represent the smallest identifiable group that generates largely independent cash flows, in line with the method laid down in IAS 36; these CGUs correspond to the various Group companies.

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, given that it is not possible to reliably establish their fair value net of selling costs. The value in use is the present value of future cash flows that ought to arise from continuous use of the assets belonging to the CGUs and from the terminal value attributed to them. For the purpose of verifying the recoverability of carrying amounts, this was compared with the net book value of the tangible and intangible assets, including goodwill, attributed to the CGUs. The net book value of assets allocated to each CGU is as follows (in thousands of Euro):

	Figures in the separate financial statements	***Goodwill - Allocation of consolidated financial statements***	***Tangible assets – Allocation of consolidated financial statements***	**Total**
Panariagroup S.p.A.	43,812	-	-	43,812
Gres Panaria Portugal	22,648	12,089	11,451	46,188
Florida Tile	22,881	-	-	22,881
Montanari Francesco S.r.l.	120	700	27	847

The value of each CGU was determined by applying the UDCF (“Unlevered Discounted Cash Flow”) model to the cash flows included in the 2012-2016 Business Plan approved by the Board of Directors of the Parent Company on 15 March 2012. A terminal value was calculated at the end of the explicit forecast period; this terminal value is represented either by the disposal value of the CGU if it is seen that only the value of the tangible assets can be recovered, or by the return in perpetuity. In this case, for the perpetual operating cash flow we used the operating profit after tax (Net operating profit less adjusted tax - "Noplat") for the last financial year of the Plan with a growth rate of zero, in line with that used in 2010.

The discount rate that we used to discount the expected cash flows was 8.9% (the figure used in 2010 was 7.7%).

Moreover, based on the information contained in the joint document of the Bank of Italy, CONSOB and ISVAP no. 2 of 6 February 2009, the Group set out to develop a sensitivity analysis on the test results compared with the change in the basic assumptions, identifying WACC as a suitable parameter for this analysis, as it conditions the value in use of the cash generating units.

Note that the impairment tests are based on business plans determined by management on the basis of past experience and expectations of developments in the market in which the Company operates; the expected rates of growth in the operating results foreseen in the past have been reconsidered in a more conservative way in light of the current uncertainties in the ceramics industry. 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, induced management to reconsider the growth rates expected for revenues and profitability on a more conservative basis. In particular, the expectations for revenue growth were generally revised downward, considering them to be particularly low in the short term, and with a still moderate recovery in the medium term, which is also in line with the trends defined by the most recent forecasts published by "Confindustria Ceramica", and no additional efficiency has been considered with respect to the Group's current production and organizational structure. Furthermore, as mentioned previously, the tests were carried out considering a zero rate of growth at the end of the explicit forecast period.

The tests did not reveal any situations of impairment for the CGUs considered.

The following is the outcome of the tests.

Panariagroup Industrie Ceramiche S.p.A.

Based on the above parameters, the value in use of Panaria S.p.A. amounted to approximately Euro 106.1 million compared with a net book value of assets (tangible and intangible, including goodwill) reported in the consolidated financial statements of some Euro 43.8 million.

Gres Panaria Portugal S.A.

Based on the assumptions listed above, the value in use of Gres Panaria Portugal is around Euro 70.2 million compared with a book value of the net assets (tangible and intangible, including goodwill) reported in the consolidated financial statements of some Euro 46.2 million.

Florida Tile Inc.

Based on the assumptions listed above, the value in use of Florida Tile is around USD 35.7 million compared with a book value of the net assets (tangible and intangible assets, including goodwill) reported in the consolidated financial statements of some USD 22.9 million.

It should be noted that Florida Tile Inc. suffered considerable losses in previous years, also at an operational level, and turned in another operating loss during the year just ended, though it is considerably lower than in previous years.
Management has drawn up a restructuring and reorganization plan that has involved significant investment in new plant and machinery which has already produced results in 2011, as the subsidiary has achieved a positive gross operating margin. With the financial support from the Company, it is felt that the subsidiary should be able to bring its capital, financial and earnings structure back into balance, allowing it to continue as a going concern.

Montanari Francesco S.r.l.

Based on the assumptions listed above, the value in use of Montanari Francesco S.r.l., about Euro 1.2 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 following shows how the value in use of the CGUs changes based on variations in the WACC.

Amounts in millions of Euro	***WACC - 0.5%***	***WACC used***	***WACC +0.5%***
Panaria S.p.A.	*108.8*	*106.1*	*103.6*
Gres Panaria	*74.3*	*70.2*	*66.5*
Florida Tile (*)	*36.7*	*35.7*	*34.7*
Montanari	*1.3*	*1.2*	*1.1*

(*) Amounts in millions of USD

Note that the value in use would more or less correspond to the allocated book value using the WACC rates shown in the following table:

Amounts in millions of Euro	***WACC***
Panaria S.p.A.	*>20%*
Gres Panaria	*13.5%*
Florida Tile (*)	*17.1%*
Montanari	*12.5%*

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 the assets booked in the consolidated financial statements 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.

In addition, based on the recommendations of the Bank of Italy/CONSOB/ISVAP Document No. 4 of 3 March 2010, we think it is worth pointing out that the Directors do not consider the market capitalisation based on current stock market prices to be a true reflection of the Group's value, as it is lower than consolidated net equity at 31 December 2011. The Directors confirm that the value of the Group's assets is as shown in the financial statements, so this situation is not considered an indicator of impairment.

In making this assessment, the Directors have taken into account the fact that:

- the limited value of the float (less than 30%) means that the value of the shares on the stock exchange does not reflect the economic value of a majority stake;
- the current value of the Company's capitalisation is affected by the unfavourable situation on stock markets in general and the not exactly brilliant performance of the ceramics industry in the last two years, as well as by the Company's policy not to distribute dividends at the present time;
- the positive economic trends in 2011 are broadly in line with the business plans used as the basis for the impairment tests carried out at 31 December 2010; these plans provide for positive earnings prospects for the entire period of the analysis.

In order to corroborate these considerations, as suggested by the Discussion Paper prepared by the *Organismo Italiano di Valutazione* with respect to "Impairment tests in the context of financial and real crisis" when the market capitalization is less than the book net equity, the Directors have prepared an additional, second-level impairment test for the entire Group, represented by the sum of the CGUs, corporate assets and surplus assets. The parameters assumed for this test were the same as the ones explained previously (Multi-year Plan 2012-2016 approved by the Parent Company's Board of Directors on 15 March 2012, WACC equal to 8.9%, growth rate of the terminal value 0%), and the test confirmed the recoverability of the net non-current assets shown in the consolidated financial statements.

2.b. Intangible assets

"Intangible assets" at 31 December 2011 amount to Euro 2,697 thousand, which is lower than the figure of Euro 3,187 thousand reported at 31 December 2010.

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:

	31/12/2011	**31/12/2010**
Land and buildings	26,569	26,943
Plant and machinery	50,580	48,589
Equipment and other assets	13,563	13,786
Construction in progress	1,509	900
	92,221	**90,218**

Changes during the year can be summarised as follows:

Balance at 1/1/2011	**90,218**
Additions	19,044
Retirements	(795)
Depreciation charge	(16,548)
Exchange differences for foreign subsidiaries	302
Balance at 31/12/2011	**92,221**

The changes during the period are reported in an attachment.

Investment in property, plant and equipment during the period of some Euro 19.0 million includes Euro 13.3 million for implementations at the Group's Italian factories, Euro 2.3 million in expenditure on the Portuguese factories and Euro 3.4 million in expenditure on the US factory.

Of the capital investments in 2011, one that stands out is the start of construction work on the second porcelain gres laminate line at the Fiorano Modenese factory, which entered service during the second half of the year; the installation of this system will support the growing demand from the market that has been very receptive to this type of product.

"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 330 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:

	31/12/2011	31/12/2010
Industrial Revenue Bond	10,467	10,769
Other	6	4
	10,473	**10,773**

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 decrease in value of the Industrial Revenue Bond compared with 31 December 2010 is due for Euro 632 thousand to repayment of the annual instalment of USD 850 thousand, and for Euro 332 thousand to the exchange effect due to translation at the year-end exchange rate.

2.e Deferred tax assets

The balance of deferred tax assets and deferred tax liabilities was a receivable at 31 December 2011, whereas last year it was a payable:

	31/12/2011	**31/12/2010**
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	(3,298)	(3,576)
- valuation of severance indemnities according to IFRS	(253)	(267)
- valuation of agents' termination indemnities according to IFRS	(542)	(481)
- valuation of inventories	(2,653)	(2,674)
- lease-back	(322)	(345)
- exchange differences on valuation	(613)	(280)
- accelerated depreciation	(127)	(141)
- other	(76)	(94)
Total deferred tax liabilities	**(7,884)**	**(7,858)**
Deferred tax assets:		
- taxed provisions	4,563	4,621
- carried-forward tax losses	773	748
- freeing up equity investments	3,703	-
- other	42	51
Total deferred tax assets	**9,081**	**5,420**
Deferred tax liabilities	**1,197**	**(2,438)**

The main change relate to the "freeing up of equity investments" in 2011.

The Parent Company used this option offered by Italian legislation to free up for tax purposes the portion of equity investments attributable to goodwill. The deal means that Panariagroup will have to pay a substitute tax of 16% of the amount freed up (payments to be made from 2013 onwards), obtaining as a benefit the possibility to amortise this amount in its tax return over the next 10 years.
Panariagroup has booked this transaction according to one of the three alternative methods identified by the OIC (Italian Accounting Body), namely the "Substitute tax with recognition of deferred tax assets" method.
This method entails booking the liability for substitute tax (16% of the amount freed up) and recognising deferred tax assets for the fiscal benefit to be gained from deducting

amortisation for the next 10 years; the difference between these two amounts is all charged to the income statement for the year.

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 3,298 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 12.8 million, including the effects of prior years. Group management has not fully recognised the deferred tax asset because of its desire to treat this subsidiary prudently from an accounting point of view, given the losses that it has run in previous years. The recoverability of this asset therefore depends on the US subsidiaries' effective ability to report a medium-term profit, as indicated in the business plan approved by the Group's Board of Directors.

2.f. Other non-current assets

This line item comprises:

	31/12/2011	31/12/2010
Guarantee deposits for utilities	166	168
Other	95	110
Total other non-current receivables	**261**	**278**
Total non-current accrued income and prepaid expenses	**-**	**-**
	261	**278**

5) 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:

	31/12/2011	31/12/2010
Current account overdrafts	15,031	2,679
Export advances	13,710	17,007
Long-term loans	19,797	15,239
Leases	658	653
Other loans	773	2,245
	49,969	**37,823**

The changes in financial position during 2011, compared with 2010, 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 2011 amounted to Euro 119.9 million, of which Euro 36.0 million had been drawn down at that date.

"Long-term loans" refer for Euro 168 thousand to the last installment of the loan received from the Ministry of Industry, and for Euro 19,629 thousand to the current portion of nine unsecured loans taken out by the Parent Company between 2006 and 2011. These loans are discussed in more detail in the section entitled "Due to banks and other sources of finance" under non-current liabilities.

"Leases" of Euro 658 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

"Other loans" of Euro 773 thousand at 31 December 2011 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:

	31/12/2011	31/12/2010
Trade payables	62,306	59,947

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. There is a slight increase over the same period last year, in line with the growth in the Value of Production.

3.c. Due to tax authorities

This caption comprises:

	31/12/2011	31/12/2010
Withholding tax	2,076	2,189
Income taxes	97	950
Other	151	171
	2,324	**3,310**

3.d. Other current liabilities

At 31 December 2011, this caption comprises:

	31/12/2011	31/12/2010
Due to social security institutions	3,584	3,449
Due to employees	5,729	5,765
Due to customers	5,056	4,872
Due to agents	9,055	8,887
Shannon plant closure expenses	-	98
Financial derivatives – negative fair value	140	197
Other	385	260
Total current payables	**23,949**	**23,528**
Deferred income for capital grants	76	83
Accrued interest expense	7	13
Other	150	211
Total current accrued expenses and deferred income	**233**	**307**
	24,182	**23,835**

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2011	31/12/2010
Employee severance indemnities	**6,175**	**6,440**

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

Demographic assumptions

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

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

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

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

Financial assumptions

The following discount rates have been used. In 2011 the iBoxx Eurozone Corporate AA Index was taken as a point of reference.

31/12/2011: discount rate = 4.75 %
31/12/2010: discount rate = 5.30 %

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

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

	31/12/2011	31/12/2010
Present value of the obligation	5,742	5,897
Unrecognised actuarial gains (losses)	433	543
Book value of employee severance indemnities	**6,175**	**6,440**

The actuarial gains at 31 December 2011 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:

Balance at 31/12/2010	**6,440**
Charge to the income statement	230
Portion paid out during the year	(495)
Employee severance indemnities at 31/12/2011	**6,175**

The charge to the income statement in 2011 refers only to the revaluation of severance indemnities accrued up to 31 December 2006 (booked to financial expense). This is because severance indemnities accruing as from 1 January 2007 are treated like a Defined Contribution Plan, the cost of which is charged directly to income without going through the provision.

4.b. Deferred tax liabilities

The balance at 31 December 2011 is a receivable. Reference should be made to the note on deferred tax assets (2.e) for further details.

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31/12/2011	31/12/2010
Taxation	285	4,499
Provision for agents' termination indemnities	2,788	2,906
Provision for liabilities - Florida Tile	205	151
Other provisions	300	300
	3,578	**7,856**

Taxation amounts to Euro 0.3 million at the end of 2011, versus Euro 4.5 million at the end of 2010, a significant reduction of Euro 4.2 million.

Important changes have taken during the period:

- On 7 April 2011 the Regional Tax Commission, in open court, upheld the appeal of the Tax Authorities, declaring the recovery of the amounts constituting State Aid as legitimate.
- On 13 June 2011 Equitalia served a tax notice for the payment of Euro 4,982 thousand (including tax, fees and interest), payable within 60 days.
- On 1 July 2011, the Tax Authorities agreed that the amount of tax (disputed by Panariagroup Industrie Ceramiche S.p.A requesting partial relief) had been calculated incorrectly and acknowledged a credit of Euro 984 thousand (including tax and interest).
- Panariagroup paid the entire tax bill (Euro 4,982 thousand) on 8 August 2011.
- The reimbursement of Euro 984 thousand was received on 6 December 2011.

Following these events, the tax provision which was established specifically for this risk in previous years has been used up completely; there is no additional costs to come in the future.
The adequacy of the provision made it possible not to have a negative impact on the income statement despite the adverse decision of the Tax Commission.

In November 2011 the EC Court of Justice finally ruled on the question of State aid for newly-listed companies, recognizing the nature of the benefits as illegal aid. The case is therefore to be considered closed.

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).

At 31 December 2011 the residual tax provision includes an amount of Euro 285 thousand to cover a matter 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 2007 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements at 31 December 2011.

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 2010	4.32%
31 December 2011	5.57%

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:

	31/12/2011	31/12/2010
Long-term loans	36,348	42,621
Assisted loans	2,312	1,115
IRB finance lease	10,467	10,769
Other leases	-	4
	49,127	**54,509**

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

- Euro 5.0 million in respect of an unsecured loan taken out by the Parent Company in 2006 originally for Euro 20 million, at a floating rate linked to Euribor and maturing in 2014.
- Euro 2 million in respect of an unsecured loan taken out by the Parent Company in 2007 originally for Euro 10 million, at a floating rate linked to Euribor and maturing in 2013.
- Euro 16.0 million for three unsecured loans taken out by the Parent Company in 2009 at a floating rate linked to Euribor, maturing between 2014 and 2016.
- Euro 3.0 million in respect of a new unsecured loan taken out in 2010 at a floating rate linked to Euribor and maturing in 2015.
- Euro 10.3 million from two unsecured loans taken out by the parent company turned in 2011, at a variable rate linked to Euribor, maturing in 2016

During 2011, the loan on the books of Gres Panaria Portugal S.A. was repaid and shown in the consolidated financial statements at 31 December 2010 for a total (short and long-term portions together) of 4.0 million; extinction was decided following the unilateral imposition of a higher spread by the lender.

"Assisted loans" include:
- an interest-assisted loan of Euro 755 thousand on investments made by the Portuguese company Gres Panaria Portugal S.A.
- an interest-assisted loan of Euro 1,557 thousand for industrial R&D.

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

The "IRB finance lease" relates to the Industrial Revenue Bond operation, detailed in note "2.d Financial assets", and associated with the package of tax incentives obtained for the major investment in the Lawrenceburg factory of Florida Tile Inc. As mentioned previously in connection with the Bond, the decrease in its amount reflects the repayment of principal during 2011 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
12 months	**19,797**	**658**	**(654)**	**19,801**
2013	16,565	654	(654)	16,565
2014	12,027	654	(654)	12,027
2015	6,627	654	(654)	6,627
2016	3,189	654	(654)	3,189
2017	252	654	(654)	252
2018	-	654	(654)	-
2019	-	654	(654)	-
2020	-	654	(654)	-
2021	-	654	(654)	-
Beyond 10 years	-	4,581	(4,581)	-
Long-term	**38,660**	**10,467**	**(10,467)**	**38,660**
Financial payables	**58,457**	**11,125**	**(11,121)**	**58,461**

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

At 31 December 2011, this caption comprises:

	31/12/2011	31/12/2010
Due to suppliers beyond 12 months	1,465	29
Flat-rate taxes beyond 12 months	1,996	-
Accrued rent - Lawrenceburg	398	339
Other	186	192
	4,045	**560**

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

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

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

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

5. EQUITY

Equity consists of:

	31/12/2011	31/12/2010
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,472	3,368
Translation reserve	395	(1,134)
Other reserves and retained earnings	59,881	58,541
Net profit (loss) for the year	1,551	1,444
	153,253	**150,173**

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

To date, no stock option plans have been granted.

The main items making up equity are discussed below.

Share capital

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

Share premium reserve

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

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

Revaluation reserves

The revaluation reserve amounting to Euro 4,493 thousand includes Euro 4,103 thousand for the revaluation of assets at 31 December 2011 under Law 342 of 21.11.2000 and Euro 390 thousand for revaluations carried out in application of previous laws. No deferred taxes have been provided on these reserves, which are subject to the deferral of taxation, since no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

Legal reserve

The legal reserve reported in the consolidated financial statements reflects the corresponding reserve recorded by Panariagroup Industrie Ceramiche S.p.A. It increased during the period thanks to the allocation of 5% from the 2010 net profit.

Translation reserve

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

Other reserves and retained earnings

The other equity reserves are made up as follows:

	31/12/2011	**31/12/2010**
Extraordinary reserve	41,192	40,693
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings and other reserves	19,226	18,385
	59,881	**58,541**

The *Extraordinary reserve* has increased by Euro 499 thousand following the allocation of part of the Parent Company's 2010 net profit.

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

Treasury shares

At 31 December 2011 there are 432,234 treasury shares held in portfolio at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

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

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

"Retained earnings (accumulated losses) and other reserves" of Euro 19,226 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 2011:

- an interest rate swap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on loans obtained in 2006;
- a cap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on outstanding loans obtained during 2010;
- a cap with a notional underlying principal of Euro 7,000 thousand to hedge interest rates on outstanding loans obtained during 2010.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 140 thousand. The adjustment to fair value at 31 December 2011 involved booking a gain of Euro 57 thousand to the income statement for the period.

GUARANTEES

At 31 December 2011 no guarantees have been given in favour of entities outside of the scope of consolidation.

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

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

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

	31/12/2011	***31/12/2010***
Italy	85,743	83,103
Abroad	210,272	206,891
(Customer rebates)	(4,618)	(4,815)
	291,397	**285,179**

Revenues from sales have increased by 2.2%, rising from Euro 285,179 thousand at 31 December 2010~~1~~ to Euro 291,397 thousand at 31 December 2011 (+Euro 6.2 million).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31/12/2011	**31/12/2010**	**Change**
Expense recoveries (displays, transport)	2,958	2,765	193
Gains on the sale of property	366	67	299
Out-of-period income	468	377	91
Compensation for damages	110	31	79
Grants	823	21	802
Energy income	686	183	503
Other	629	766	(137)
	6,040	**4,210**	**1,830**
% of Value of Production	***2.0%***	***1.4%***	**+0.6%**

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

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

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

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P
Raw materials	41,781	13.8%	38,786	13.2%
Finished products	27,613	9.1%	26,020	8.9%
Packaging	10,485	3.5%	9,527	3.3%
Price lists/Catalogues	1,274	0.4%	1,522	0.5%
Other	287	0.1%	232	0.1%
	81,440	**26.8%**	**76,087**	**26.0%**

7.b. Services, leases and rentals

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

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P.
Property rental	8,943	2.9%	8,840	3.0%
Rent of other fixed assets	2,520	0.8%	2,668	0.9%
Commissions	16,516	5.4%	16,094	5.6%
Utilities	30,037	9.9%	26,442	9.0%
Commercial expenses and advertising	9,334	3.1%	8,741	3.0%
Sub-contract work	13,604	4.5%	14,806	5.1%
Maintenance	8,968	3.0%	9,211	3.1%
Transportation	14,589	4.8%	12,815	4.4%
Industrial services	5,771	1.9%	5,471	1.9%
Directors' and statutory auditors' fees	1,185	0.4%	1,184	0.4%
Consulting fees	3,768	1.2%	3,419	1.2%
Insurance	1,034	0.3%	1,279	0.4%
Other	6,775	2.2%	4,791	1.6%
	123,044	**40.5%**	**115,761**	**39.6%**

"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 3,688 thousand.

7.c. Personnel costs

Personnel costs have increased from Euro 69,863 thousand at 31 December 2010 (23.9% of value of production) to Euro 70,701 thousand at 31 December 2011 (23.3% of value of production).

Personnel costs can be broken down as follows:

	31/12/2011	31/12/2010
Wages and salaries	53,202	51,491
Social security contributions	14,831	15,605
Severance indemnities and other funds	2,147	2,109
Other personnel costs	521	658
	70,701	**69,863**

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

	31/12/2011	31/12/2010
Managers	30	30
Supervisors and white collar workers	650	641
Foremen and blue collar workers	968	1,004
	1,648	**1,675**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P.
Out-of-period expenses	291	0.1%	195	0.1%
Gifts	73	0.0%	80	0.0%
Trade association fees	97	0.0%	103	0.0%
Losses on disposals	360	0.1%	18	0.0%
Indirect taxes	961	0.3%	1,046	0.4%
Office materials	637	0.2%	652	0.2%
Other	570	0.2%	847	0.3%
	2,989	**1.0%**	**2,941**	**1.0%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Depreciation and amortisation decreased from Euro 17,402 thousand at 31 December 2010 to Euro 17,621 thousand at 31 December 2011, remaining more or less the same as a percentage of the value of production.

8.b. Provisions and impairments

"Provisions and impairments" of Euro 3,051 thousand include Euro 682 thousand in provisions for agents' termination indemnities, Euro 1,855 thousand in writedowns against receivables and Euro 371 thousand in writedowns against inventories and other provisions for Euro 143 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2011	31/12/2010
Interest on short-term loans	(512)	(312)
Interest expense on medium/long-term loans	(1,637)	(1,350)
Financial expense on severance indemnity liability	(292)	(291)
Fair value losses on derivatives	-	-
Other	(1,463)	(1,563)
Total financial expense	**(3,904)**	**(3,516)**
Bank interest income	3	1
Interest on receivables	101	100
Fair value gains on derivatives	57	71
Other	84	35
Total financial income	**245**	**207**
TOTAL FINANCIAL INCOME AND EXPENSE	**(3,659)**	**(3,309)**
% of Value of Production	*-1.2%*	*-1.1%*
Exchange losses	(2,374)	(394)
Exchange gains	2,884	1,586
TOTAL EXCHANGE GAINS AND LOSSES	**510**	**1,192**
% of Value of Production	*+0.2%*	*+0.4%*
Financial losses on discounting	-	-
Financial gains on discounting	195	59
DISCOUNTING GAINS (LOSSES)	**195**	**59**
% of Value of Production	*+0.0%*	*+0.0%*
Total financial income (expense)	**(2,954)**	**(2,058)**
% of Value of Production	**-1.0%**	**-0.7%**

"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 2011 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

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)

Rate	Higher (Lower) Profits € mn
1.20	+4.0
1.30	+1.5
1.40	-0.7
1.50	-2.5
1.60	-4.2

* Hypothesis of a constant interest rate over the entire period

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INDUSTRIE CERAMICHE S.P.A.

10. INCOME TAXES

10.a Income taxes

Income taxes for the year amount to Euro 450 thousand, with a tax rate of 22.5%; the following is a reconciliation of the theoretical tax rate and the effective tax rate:

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)	2,226		
B	Personnel costs	46,039		
C	Financial expense (net)	(332)		
D	Dividends received	1,188		
			Theoretical tax	**Theoretical tax rate**
A	Theoretical taxable income for IRES purpose	1,038	285	**27.50%**
A+B+C	Theoretical taxable income for IRAP purpose	46,745	1,823	**3.90%**
CF1	THEORETICAL TAX CHARGE - ITALIAN TAXES		**2,109**	**94.72%**

THEORETICAL TAX RATE - PORTUGUESE TAXES

			Theoretical tax	**Theoretical tax rate**
A	Theoretical taxable income for IRC purpose	3,360	890	**26.50%**
CF2	THEORETICAL TAX CHARGE - PORTUGUESE TAXES		**890**	**26.50%**

THEORETICAL TAX RATE - US TAXES

			Theoretical tax	**Theoretical tax rate**
A	Theoretical taxable income for IRC purpose	(511)	(199)	**39.00%**
CF3	THEORETICAL TAX CHARGE - US TAXES		**(199)**	**39.00%**

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	THEORETICAL TAX CHARGE - TOTAL	**2,800**	**139.91%**
	No recognition of deferred tax assets for US taxes	**199**	**9.96%**
	Economic impact of freeing up the equity investments	**(1,707)**	**-6.98%**
	Tax effect on consolidation adjustments	**(459)**	**-22.94%**
	Use of deferred tax liabilities "State Aid"	**(293)**	**-5.78%**
	Difference	**(90)**	**-4.49%**
	ACTUAL tax charge	**450**	**22.49%**

The main factor that helps to lower the tax rate is the positive impact of freeing up the equity investments (already commented on in the note on deferred tax assets), for an amount of Euro 1.7 million.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share are disclosed at the foot of the income statement: € 0.034 per share at 31 December 2011 and € 0.032 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 2011~~0~~ 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	5	-	**5**
Services	30	24	**54**
Total revenues	**35**	**24**	**59**

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,072	**5,072**
Commission for guarantees given	35	-	**35**
Services	60	-	**60**
Total costs	**95**	**5,072**	**5,167**

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

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

	% of Value of Production	% of total revenues	% of pre-tax profit	% of operating cash flow*
Revenues	0.02%	0.02%	2.95%	0.45%
Costs	1.70%	1.77%	258.22%	3.91%

* before changes in working capital

BALANCE SHEET
(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	36	29	65
Payables	-	-	-
Due from (to) tax authorities	489	-	489
Net receivable (payable)	**525**	**29**	**554**

Following the decision to file for tax on a group basis, credits for income tax (IRES) of Euro 489 thousand have been included in receivables from Finpanaria, which as the head of the tax group is responsible for financial dealings with the tax authorities.
All related party transactions are carried out on an arm's length basis.
In this connection, we would call your attention to the fact that a procedure on related-party transactions is now in place in accordance with the Consob Regulation adopted with Resolution 17221 of 12 March 2010 and subsequent amendments.

ATTACHMENTS

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

- Statement of changes in intangible assets and goodwill from 1 January 2011 to 31 December 2011
- Statement of changes in property, plant and equipment from 1 January 2011 to 31 December 2011
- Statement of changes in financial position
- 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

Sassuolo, 15 March 2012

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2011 to 31 December 2011

Panariagroup - Consolidated financial statements

Statement of changes in intangible assets and goodwill
from 1/1/2011 to 31/12/2011
(in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2011	**3,187**	**-**	**3,187**	**12,789**
Increases, net	553	-	553	-
Decreases, net	-	-	-	-
Amortisation	(1,073)	-	(1,073)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidia	30	-	30	-
Balance at 31/12/2011	**2,697**	**-**	**2,697**	**12,789**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2011 to 31 December 2011

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1/1/2011 to 31/12/2011
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2011	**26,943**	**48,589**	**13,786**	**900**	**90,218**
Increases, net	632	14,270	2,621	1,521	19,044
Net decreases and impairment	-	(795)	-		(795)
Depreciation	(1,040)	(12,426)	(3,082)		(16,548)
Reclassifications	34	736	142	(912)	-
Exchange differences on foreign subsidiaries		206	96		302
Balance at 31/12/2011	**26,569**	**50,580**	**13,563**	**1,509**	**92,221**

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)

		Rif.	31/12/2011	31/12/2010
	Securities	**1.d**	(654)	(633)
A	Cash and cash equvalents	**1.e.**	(3,101)	(2,328)
	Short-term financial assets		**(3,755)**	**(2,961)**
	Securities	**2.d.**	(10,467)	(10,769)
	Long-term financial assets		**(10,467)**	**(10,769)**
B	Due to banks		29,514	21,931
	Current portion of long-term loans		19,797	15,239
	Leases		658	653
	Short-term financial indebtedness	**3.a.**	**49,969**	**37,823**
	Non-current portion of long-term loans		38,660	43,736
	Due to bondholders		0	0
	Leases		10,467	10,773
	Long-term financial indebtedness	**4.d.**	**49,127**	**54,509**
	Net financial indebtedness		**84,874**	**78,602**

A+B	**Net short-term financial indebtedness**		**26,413**	**19,603**

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

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

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

Board of Directors

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

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

The board of of Directors' term in office expires at the AGM that approves the 2011 financial statements.

Board of Statutory Auditors

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

Compensation Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Internal Control Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

Deloitte & Touche S.p.A.

EXPLANATORY NOTES - ATTACHMENT 5

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

Type of services	Party providing the services	Recipient	Fees earned in 2011
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	161
	Deloitte & Touche S.p.A.	Florida Tile (*)	75
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	41
Total			277

(*) Wholly owned (direct and indirect) 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-*ter* of CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments

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

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

of the administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 31 December 2011.

2. No matters of particular importance 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.

Sassuolo, 15 March 2012

Managing Directors

Paolo Mussini
Andrea Mussini
Emilio Mussini
Giuseppe Mussini
Giuliano Pini

Financial Reporting Manager

Damiano Quarta

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION

(THOUSANDS OF EURO)

rif	ASSETS	31/12/2011	31/12/2010
	CURRENT ASSETS	**235,321**	**229,646**
1.a	Inventories	142,134	134,943
1.b	Trade Receivables	82,997	83,647
1.c	Due from tax authorities	3,578	5,717
1.d	Other current assets	3,511	3,011
1.e	Cash and cash equivalents	3,101	2,328
	NON-CURRENT ASSETS	**119,638**	**117,245**
2.a	Goodwill	12,789	12,789
2.b	Intangible assets	2,697	3,187
2.c	Property, plant and equipment	92,221	90,218
2.d	Financial assets	10,473	10,773
2.e	Deferred tax assets	1,197	0
2.f	Other non-current assets	261	278
	TOTAL ASSETS	**354,959**	**346,891**

	LIABILITIES	31/12/2011	31/12/2010
	CURRENT LIABILITIES	**138,781**	**124,915**
3.a	Due to banks and other sources of finance	49,969	37,823
3.b	Trade payables	62,306	59,947
3.c	Due to tax authorities	2,324	3,310
3.d	Other current liabilities	24,182	23,835
	NON-CURRENT LIABILITIES	**62,925**	**71,803**
4.a	Employee severance indemnities	6,175	6,440
4.b.	Deferred tax liabilities	0	2,438
4.c	Provisions for risks and charges	3,578	7,856
4.d	Due to banks and other sources of finance	49,127	54,509
4.e	Other non-current liabilities	4,045	560
	TOTAL LIABILITIES	**201,706**	**196,718**
5	**EQUITY**	**153,253**	**150,173**
	Share capital	22,678	22,678
	Reserves	129,024	126,051
	Net profit for the year	1,551	1,444
	TOTAL LIABILITIES AND EQUITY	**354,959**	**346,891**

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

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS

(THOUSANDS OF EURO)

rif		31/12/2011		31/12/2010	
6.a	**REVENUES FROM SALES AND SERVICES**	**291,397**	**96.0%**	**285,179**	**97.5%**
	Change in inventories of finished products	6,199	2.0%	3,111	1.1%
6.b	Other revenues	6,040	2.0%	4,210	1.4%
	VALUE OF PRODUCTION	**303,636**	**100.0%**	**292,500**	**100.0%**
7.a	Raw materials	(81,440)	-26.8%	(76,087)	-26.0%
7.b	Services, leases and rentals	(123,044)	-40.5%	(115,761)	-39.6%
	of which, related party transactions	*(5,132)*	*-1.7%*	*(5,096)*	*-1.7%*
7.c	Personnel costs	(70,701)	-23.3%	(69,863)	-23.9%
	Change in inventories of raw materials	165	0.1%	405	0.1%
7.d	Other operating expenses	(2,989)	-1.0%	(2,941)	-1.0%
	PRODUCTION COSTS	**(278,009)**	**-91.6%**	**(264,247)**	**-90.3%**
	GROSS OPERATING PROFIT	**25,627**	**8.4%**	**28,253**	**9.7%**
8.a	Amortisation and depreciation	(17,621)	-5.8%	(17,402)	-5.9%
8.b	Provisions and writedowns	(3,051)	-1.0%	(4,371)	-1.5%
	NET OPERATING PROFIT	**4,955**	**1.6%**	**6,480**	**2.2%**
9.a	Financial income (expense)	(2,954)	-1.0%	(2,058)	-0.7%
	PRE-TAX PROFIT	**2,001**	**0.7%**	**4,422**	**1.5%**
10.a	Income taxes	(450)	-0.1%	(2,978)	-1.0%
	NET PROFIT	**1,551**	**0.5%**	**1,444**	**0.5%**
	BASIC AND DILUTED EARNING PER SHARE	**0.03**		**0.03**	

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

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PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

PANARIAGROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(THOUSANDS OF EURO)

	31/12/2011	31/12/2010
NET PROFIT (LOSS) FOR THE PERIOD	**1,551**	**1,444**
OTHER COMPONENTS OF COMPREHENSIVE INCOME		
Exchange rate differences from foreign operations	1,529	2,215
COMPREHENSIVE INCOME FOR THE PERIOD	**3,080**	**3,659**

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PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENT

CASH FLOW STATEMENT - IFRS

(THOUSANDS OF EURO)

	31st December 2011	31st December 2010
A - OPERATIONS		
Net Result of the period	1,551	1,444
Amortisation, depreciation and impairments	17,621	17,402
Deferred tax liabilities (assets)	(3,635)	(480)
Net change in tax provision for "state aid"	(3,999)	-
Net change in provisions	1,682	3,828
Cash flow (absorption) from operations prior to changes in working capital	*13,220*	*22,194*
(Increase)/Decrease in trade receivables	(1,205)	1,548
(Increase)/Decrease in inventories	(7,562)	(6,291)
(Increase)/Decrease in trade payables	2,359	2,843
Net change in other current assets/liabilities	4,522	(2,471)
Cash flow (absorption) from operations due to changes in working capital	*(1,886)*	*(4,371)*
TOTAL (A) CASH FLOW FROM OPERATIONS	**11,334**	**17,823**
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(18,804)	(10,607)
Net investment in financial assets	-	-
Exchange difference on tangible and intangible assets	(332)	(1,252)
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(19,136)**	**(11,859)**
C - FINANCING ACTIVITY		
Increase in capital	-	-
Distribution of dividends	-	-
Other changes in equity	-	-
(Purchase) Sale of treasury shares	-	-
Net change in loans	(537)	(4,505)
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**(537)**	**(4,505)**
Opening net cash (indebtedness)	**(19,603)**	**(23,277)**
Change in the translation reserve	**1,529**	**2,215**
Net change in net short-term cash (indebtness) (A+B+C)	**(8,339)**	**1,459**
Closing net cash (indebtness)	**(26,413)**	**(19,603)**
Supplementary information		
Interest paid	2,149	1,662
Income taxes paid	8,665	3,605

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

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

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in consolidated equity from 1 January 2010 to 31 December 2011

(THOUSANDS OF EURO)	*Share capital*	*Share premium reserve*	*Revaluation reserves*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2010	**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 share									
Distribution of dividends									
Net result 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 of foreign company financial statements into Euro						1,023			1,023
Exchange difference on loans to foreign companies						506			506
Total gains (losses) booked directly to equity						**1,529**			**1,529**
Allocation of net profit				104	1,340			(1,444)	
Sale (Purchase) of treasury share									
Distribution of dividends									
Net result for the year								1,551	1,551
Balance as of 31.12.2011	**22,678**	**60,783**	**4,493**	**3,472**	**41,742**	**395**	**18,139**	**1,551**	**153,253**

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

PANARIAGROUP

EXPLANATORY NOTES

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

INTRODUCTION

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

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

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

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 2011 (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 includes:

- The consolidated balance sheet at 31 December 2011 with comparative figures at 31 December 2010. The balance sheet has been drawn up in a declining liquidity format, as decided at the time of the transition to IFRS, with current and non-current assets and liabilities shown separately based on a 12-month operating cycle.

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

- The consolidated income statement for the year ended 31 December 2011, with comparative figures for the year ended 31 December 2010.

  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 2011 with comparative figures for the year ended 31 December 2010, presented in accordance with the requirements of IAS 1 revised.

- A consolidated cash flow statement for 2011 and 2010. 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 2010 to 31 December 2011.

- The explanatory notes (with related attachments).

1) General information on the Group

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

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

The other companies included in the scope of consolidation are:

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

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 2010.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements at 31 December 2011 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 accounting policy for the Maronagres goodwill as 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 balance sheet date, the Group reviews the book value of its tangible and intangible assets for any signs that these assets may have suffered a loss in value. If there are signs that this is the case, the recoverable value of such assets is estimated so as to determine the amount of the writedown. When it is not possible to estimate the recoverable value of an asset individually, the Group makes an estimate of the recoverable value of the cash generating unit (CGU) to which the asset belongs.

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

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

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

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

Leases

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

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

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

Inventories

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

Trade receivables

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

Financial assets

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

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

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

Cash and cash equivalents

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

Derivatives

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

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

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

Allowances

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

Post-employment benefits

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

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

Trade payables

Trade payables are booked at their face value.

Financial liabilities and equity instruments

The financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual agreements that generated them and according to the respective definitions of financial liabilities and equity instruments. The latter are defined as contracts that give a right to benefit from the residual interests in the Group's assets after all liabilities have been deducted. The accounting principles used for specific financial liabilities and equity instruments are indicated below.

Equity instruments

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

Bank loans

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

Treasury shares

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

Revenue recognition

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

Foreign currency transactions

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

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

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

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

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

	31/12/2011	31/12/2010
Average exchange rate for the period	1.3920	1.3257
Current exchange rate at the balance sheet date	1.2939	1.3362

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

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

Government grants

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

Income taxes

Income taxes 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet, income statement and cash flow statement, as well as the other information provided in the report. The following is a brief description of the accounting principles that, more than others, require greater subjectivity on the part of management in making such estimates and for which a change in the conditions underlying the assumptions made can have a significant impact on the Group's consolidated financial statements.

Goodwill – Estimate of the degree of recoverability

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

Inventory valuation and provision for slow-moving and obsolete goods

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

Provision for bad and doubtful accounts

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

Deferred tax assets

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

Contingent liabilities

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

SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS – ATYPICAL AND/OR UNUSUAL TRANSACTIONS

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

Related parties

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

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

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

Revised version of IAS 24 – Related Party Disclosures

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

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

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;

Improvement to IAS/IFRS (2010).

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

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

On 12 November 2009 IASB issued IFRS 9 – Financial instruments: this standard was then amended on 28 October 2010. The standard, which is applicable from 1 January 2015, represents the first part of a process that consists of a number of stages. The purpose is to replace IAS 39 in its entirety, introducing new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets from the balance sheet. 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 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 amendments apply from 1 July 2011 on a prospective basis.

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. The principle is applicable retrospectively from 1 January 2012.

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

On 12 May 2011, the IASB issued IFRS 11 - Share-based Agreements, which will replace IAS 31 - Equity Investments in Joint Ventures and SIC-13 - Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The new standard provides criteria for identifying partnership agreements based on the rights and obligations arising from agreements rather than on their legal form and provides that the only method of accounting for equity investments in jointly controlled entities in the consolidated financial statements is the equity method. The principle is applicable retrospectively from 1 January 2013. Following the issuance of this standard, IAS 28 - Equity Investments in Associated Companies was amended to include equity investments in jointly controlled entities within its scope from the effective date of the standard.

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

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

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

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

At the date of these consolidated financial statements, the EU authorities had not yet concluded the process of approving these amendments; this will be necessary before it can be applied.

Financial risks and derivatives

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

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

a) Exchange rate risk

The Group operates on international markets and settles its trading transactions in euro and, where foreign currencies are concerned, principally in US dollars.
Exchange rate risk mainly arises from the sale of finished products to the US market, partially mitigated by the fact that purchases of raw materials, particularly clays, are settled in US dollars.
In some cases, the Group has hedged exchange rate risk by taking out derivatives such as interest rate swaps.
See the "Financial income and expense" section of these notes for the sensitivity analysis required by IFRS 7.

b) Credit risk

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

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

c) Interest rate risk

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

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

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

d) Liquidity risk

In its main activities the Group is exposed to a mismatch of cash flows in and out in terms of timing and volumes, and hence to the risk of not being able to fulfil its financial obligations.
The Group's objective is to ensure that it can 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) 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.

4) comments on the principal asset captions

1. CURRENT ASSETS

1.a. Inventories

Inventories are analysed as follows at 31 December 2011:

	31/12/2011	31/12/2010
Raw, ancillary and consumable materials	12,204	11,034
Work in progress	2,003	1,512
Finished products	125,495	119,513
Buildings held for sale	2,432	2,883
	142,134	**134,942**

The overall value of inventories has increased (+5.3%) compared with the start of the year. This increase is the result of higher stocks in terms of square metres (+2.5%) and a significant rise in costs because of price hikes for certain important production factors (energy, clays, packaging).

Inventories are shown net of a provision for obsolescence of Euro 13,107 thousand at 31 December 2011 (Euro 12,931 thousand at 31 December 2010), 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 2,432 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:

	31/12/2011	31/12/2010
Trade receivables	88,190	87,351
Provision for bad and doubtful accounts	(5,193)	(3,704)
	82,997	**83,647**

Gross trade receivables are up slightly (+1%) compared with 31 December 2010, less than proportionally to the growth in revenue.

"Trade receivables" include around Euro 5,031 million in amounts over 120 days past due (corresponding to about 5.7 % of total receivables), for which there is a provision for bad and doubtful accounts of Euro 5.2 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. The provision for bad and doubtful accounts has been increased since the previous year to reflect the higher risk of collection in certain markets where the Group operates, because of the ongoing difficult economic climate.

At 31 December 2011 a total of around Euro 0.9 million in amounts due from customers were guaranteed by "preliminary agreements" for the sale of apartments (around Euro 1.0 million at 31 December 2010). In January 2011, the Group collected Euro 185 thousand for one of the receivables guaranteed by these preliminary agreements, more or less its book value.

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

1.c. Due from tax authorities

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

	31/12/2011	31/12/2010
VAT receivable	1,298	3,963
Advance tax payments	1,690	1,169
Other amounts due from tax authorities	590	585
	3,578	**5,717**

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

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

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

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

1.d. Other current assets

This caption is made up as follows:

	31/12/2011	31/12/2010
Advances to social security institutions	349	279
Advances to suppliers	397	317
Rebates from suppliers and credit notes to be received	245	168
Loans to employees/third parties	260	294
IRB – Current portion	654	633
Grants to be received	192	-
Other	208	98
Total other current receivables	**2,305**	**1,789**
- prepaid rents	558	537
- accrued and prepaid insurance premiums	156	187
- other accrued income and prepaid expenses	492	498
Total current accrued income and prepaid expenses	**1,206**	**1,222**
	3,511	**3,011**

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

The prepaid rents of Euro 558 thousand at 31 December 2011 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:

	31/12/2011	31/12/2010
Bank and post office deposits	3,055	2,274
Cheques	-	-
Cash and equivalents on hand	46	54
	3,101	**2,328**

The changes in financial position in 2011, compared with 2010, 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 2011: 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 2011: 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 2011: 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 expires on 21/10/2009;
- a personal guarantee given by the previous shareholders for Euro 800 thousand, with a duration of 7 years that expires on 21/10/2009.

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

- 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, the Group tests goodwill for impairment in accordance with IAS 36 at least once a year, even if there is no evidence of loss, and always whenever there are signs that it might be impaired; if there are indications of potential problems, the verification of recoverability is extended to cover the residual value of the tangible and intangible assets shown in the consolidated financial statements.

Impairment tests were carried out as required at the time the 2011 financial statements were closed: this means that the Company has identified the Cash Generating Units ("CGU") which represent the smallest identifiable group that generates largely independent cash flows, in line with the method laid down in IAS 36; these CGUs correspond to the various Group companies.

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, given that it is not possible to reliably establish their fair value net of selling costs. The value in use is the present value of future cash flows that ought to arise from continuous use of the assets belonging to the CGUs and from the terminal value attributed to them. For the purpose of verifying the recoverability of carrying amounts, this was compared with the net book value of the tangible and intangible assets, including goodwill, attributed to the CGUs. The net book value of assets allocated to each CGU is as follows (in thousands of Euro):

	Figures in the separate financial statements	***Goodwill - Allocation of consolidated financial statements***	***Tangible assets – Allocation of consolidated financial statements***	**Total**
Panariagroup S.p.A.	43,812	-	-	43,812
Gres Panaria Portugal	22,648	12,089	11,451	46,188
Florida Tile	22,881	-	-	22,881
Montanari Francesco S.r.l.	120	700	27	847

The value of each CGU was determined by applying the UDCF (“Unlevered Discounted Cash Flow”) model to the cash flows included in the 2012-2016 Business Plan approved by the Board of Directors of the Parent Company on 15 March 2012. A terminal value was calculated at the end of the explicit forecast period; this terminal value is represented either by the disposal value of the CGU if it is seen that only the value of the tangible assets can be recovered, or by the return in perpetuity. In this case, for the perpetual operating cash flow we used the operating profit after tax (Net operating profit less adjusted tax - "Noplat") for the last financial year of the Plan with a growth rate of zero, in line with that used in 2010.

The discount rate that we used to discount the expected cash flows was 8.9% (the figure used in 2010 was 7.7%).

Moreover, based on the information contained in the joint document of the Bank of Italy, CONSOB and ISVAP no. 2 of 6 February 2009, the Group set out to develop a sensitivity analysis on the test results compared with the change in the basic assumptions, identifying WACC as a suitable parameter for this analysis, as it conditions the value in use of the cash generating units.

Note that the impairment tests are based on business plans determined by management on the basis of past experience and expectations of developments in the market in which the Company operates; the expected rates of growth in the operating results foreseen in the past have been reconsidered in a more conservative way in light of the current uncertainties in the ceramics industry. 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, induced management to reconsider the growth rates expected for revenues and profitability on a more conservative basis. In particular, the expectations for revenue growth were generally revised downward, considering them to be particularly low in the short term, and with a still moderate recovery in the medium term, which is also in line with the trends defined by the most recent forecasts published by "Confindustria Ceramica", and no additional efficiency has been considered with respect to the Group's current production and organizational structure. Furthermore, as mentioned previously, the tests were carried out considering a zero rate of growth at the end of the explicit forecast period.

The tests did not reveal any situations of impairment for the CGUs considered.

The following is the outcome of the tests.

Panariagroup Industrie Ceramiche S.p.A.

Based on the above parameters, the value in use of Panaria S.p.A. amounted to approximately Euro 106.1 million compared with a net book value of assets (tangible and intangible, including goodwill) reported in the consolidated financial statements of some Euro 43.8 million.

Gres Panaria Portugal S.A.

Based on the assumptions listed above, the value in use of Gres Panaria Portugal is around Euro 70.2 million compared with a book value of the net assets (tangible and intangible, including goodwill) reported in the consolidated financial statements of some Euro 46.2 million.

Florida Tile Inc.

Based on the assumptions listed above, the value in use of Florida Tile is around USD 35.7 million compared with a book value of the net assets (tangible and intangible assets, including goodwill) reported in the consolidated financial statements of some USD 22.9 million.

It should be noted that Florida Tile Inc. suffered considerable losses in previous years, also at an operational level, and turned in another operating loss during the year just ended, though it is considerably lower than in previous years.
Management has drawn up a restructuring and reorganization plan that has involved significant investment in new plant and machinery which has already produced results in 2011, as the subsidiary has achieved a positive gross operating margin. With the financial support from the Company, it is felt that the subsidiary should be able to bring its capital, financial and earnings structure back into balance, allowing it to continue as a going concern.

Montanari Francesco S.r.l.

Based on the assumptions listed above, the value in use of Montanari Francesco S.r.l., about Euro 1.2 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 following shows how the value in use of the CGUs changes based on variations in the WACC.

Amounts in millions of Euro	***WACC - 0.5%***	***WACC used***	***WACC +0.5%***
Panaria S.p.A.	*108.8*	*106.1*	*103.6*
Gres Panaria	*74.3*	*70.2*	*66.5*
Florida Tile (*)	*36.7*	*35.7*	*34.7*
Montanari	*1.3*	*1.2*	*1.1*

(*) Amounts in millions of USD

Note that the value in use would more or less correspond to the allocated book value using the WACC rates shown in the following table:

Amounts in millions of Euro	***WACC***
Panaria S.p.A.	*>20%*
Gres Panaria	*13.5%*
Florida Tile (*)	*17.1%*
Montanari	*12.5%*

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 the assets booked in the consolidated financial statements 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.

In addition, based on the recommendations of the Bank of Italy/CONSOB/ISVAP Document No. 4 of 3 March 2010, we think it is worth pointing out that the Directors do not consider the market capitalisation based on current stock market prices to be a true reflection of the Group's value, as it is lower than consolidated net equity at 31 December 2011. The Directors confirm that the value of the Group's assets is as shown in the financial statements, so this situation is not considered an indicator of impairment.

In making this assessment, the Directors have taken into account the fact that:

- the limited value of the float (less than 30%) means that the value of the shares on the stock exchange does not reflect the economic value of a majority stake;
- the current value of the Company's capitalisation is affected by the unfavourable situation on stock markets in general and the not exactly brilliant performance of the ceramics industry in the last two years, as well as by the Company's policy not to distribute dividends at the present time;
- the positive economic trends in 2011 are broadly in line with the business plans used as the basis for the impairment tests carried out at 31 December 2010; these plans provide for positive earnings prospects for the entire period of the analysis.

In order to corroborate these considerations, as suggested by the Discussion Paper prepared by the *Organismo Italiano di Valutazione* with respect to "Impairment tests in the context of financial and real crisis" when the market capitalization is less than the book net equity, the Directors have prepared an additional, second-level impairment test for the entire Group, represented by the sum of the CGUs, corporate assets and surplus assets. The parameters assumed for this test were the same as the ones explained previously (Multi-year Plan 2012-2016 approved by the Parent Company's Board of Directors on 15 March 2012, WACC equal to 8.9%, growth rate of the terminal value 0%), and the test confirmed the recoverability of the net non-current assets shown in the consolidated financial statements.

2.b. Intangible assets

"Intangible assets" at 31 December 2011 amount to Euro 2,697 thousand, which is lower than the figure of Euro 3,187 thousand reported at 31 December 2010.

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:

	31/12/2011	**31/12/2010**
Land and buildings	26,569	26,943
Plant and machinery	50,580	48,589
Equipment and other assets	13,563	13,786
Construction in progress	1,509	900
	92,221	**90,218**

Changes during the year can be summarised as follows:

Balance at 1/1/2011	**90,218**
Additions	19,044
Retirements	(795)
Depreciation charge	(16,548)
Exchange differences for foreign subsidiaries	302
Balance at 31/12/2011	**92,221**

The changes during the period are reported in an attachment.

Investment in property, plant and equipment during the period of some Euro 19.0 million includes Euro 13.3 million for implementations at the Group's Italian factories, Euro 2.3 million in expenditure on the Portuguese factories and Euro 3.4 million in expenditure on the US factory.

Of the capital investments in 2011, one that stands out is the start of construction work on the second porcelain gres laminate line at the Fiorano Modenese factory, which entered service during the second half of the year; the installation of this system will support the growing demand from the market that has been very receptive to this type of product.

"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 330 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:

	31/12/2011	31/12/2010
Industrial Revenue Bond	10,467	10,769
Other	6	4
	10,473	**10,773**

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 decrease in value of the Industrial Revenue Bond compared with 31 December 2010 is due for Euro 632 thousand to repayment of the annual instalment of USD 850 thousand, and for Euro 332 thousand to the exchange effect due to translation at the year-end exchange rate.

2.e Deferred tax assets

The balance of deferred tax assets and deferred tax liabilities was a receivable at 31 December 2011, whereas last year it was a payable:

	31/12/2011	**31/12/2010**
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	(3,298)	(3,576)
- valuation of severance indemnities according to IFRS	(253)	(267)
- valuation of agents' termination indemnities according to IFRS	(542)	(481)
- valuation of inventories	(2,653)	(2,674)
- lease-back	(322)	(345)
- exchange differences on valuation	(613)	(280)
- accelerated depreciation	(127)	(141)
- other	(76)	(94)
Total deferred tax liabilities	**(7,884)**	**(7,858)**
Deferred tax assets:		
- taxed provisions	4,563	4,621
- carried-forward tax losses	773	748
- freeing up equity investments	3,703	-
- other	42	51
Total deferred tax assets	**9,081**	**5,420**
Deferred tax liabilities	**1,197**	**(2,438)**

The main change relate to the "freeing up of equity investments" in 2011.

The Parent Company used this option offered by Italian legislation to free up for tax purposes the portion of equity investments attributable to goodwill. The deal means that Panariagroup will have to pay a substitute tax of 16% of the amount freed up (payments to be made from 2013 onwards), obtaining as a benefit the possibility to amortise this amount in its tax return over the next 10 years.
Panariagroup has booked this transaction according to one of the three alternative methods identified by the OIC (Italian Accounting Body), namely the "Substitute tax with recognition of deferred tax assets" method.
This method entails booking the liability for substitute tax (16% of the amount freed up) and recognising deferred tax assets for the fiscal benefit to be gained from deducting

amortisation for the next 10 years; the difference between these two amounts is all charged to the income statement for the year.

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 3,298 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 12.8 million, including the effects of prior years. Group management has not fully recognised the deferred tax asset because of its desire to treat this subsidiary prudently from an accounting point of view, given the losses that it has run in previous years. The recoverability of this asset therefore depends on the US subsidiaries' effective ability to report a medium-term profit, as indicated in the business plan approved by the Group's Board of Directors.

2.f. Other non-current assets

This line item comprises:

	31/12/2011	31/12/2010
Guarantee deposits for utilities	166	168
Other	95	110
Total other non-current receivables	**261**	**278**
Total non-current accrued income and prepaid expenses	**-**	**-**
	261	**278**

5) 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:

	31/12/2011	31/12/2010
Current account overdrafts	15,031	2,679
Export advances	13,710	17,007
Long-term loans	19,797	15,239
Leases	658	653
Other loans	773	2,245
	49,969	**37,823**

The changes in financial position during 2011, compared with 2010, 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 2011 amounted to Euro 119.9 million, of which Euro 36.0 million had been drawn down at that date.

"Long-term loans" refer for Euro 168 thousand to the last installment of the loan received from the Ministry of Industry, and for Euro 19,629 thousand to the current portion of nine unsecured loans taken out by the Parent Company between 2006 and 2011. These loans are discussed in more detail in the section entitled "Due to banks and other sources of finance" under non-current liabilities.

"Leases" of Euro 658 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

"Other loans" of Euro 773 thousand at 31 December 2011 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:

	31/12/2011	31/12/2010
Trade payables	62,306	59,947

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. There is a slight increase over the same period last year, in line with the growth in the Value of Production.

3.c. Due to tax authorities

This caption comprises:

	31/12/2011	31/12/2010
Withholding tax	2,076	2,189
Income taxes	97	950
Other	151	171
	2,324	**3,310**

3.d. Other current liabilities

At 31 December 2011, this caption comprises:

	31/12/2011	31/12/2010
Due to social security institutions	3,584	3,449
Due to employees	5,729	5,765
Due to customers	5,056	4,872
Due to agents	9,055	8,887
Shannon plant closure expenses	-	98
Financial derivatives – negative fair value	140	197
Other	385	260
Total current payables	**23,949**	**23,528**
Deferred income for capital grants	76	83
Accrued interest expense	7	13
Other	150	211
Total current accrued expenses and deferred income	**233**	**307**
	24,182	**23,835**

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2011	31/12/2010
Employee severance indemnities	**6,175**	**6,440**

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

Demographic assumptions

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

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

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

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

Financial assumptions

The following discount rates have been used. In 2011 the iBoxx Eurozone Corporate AA Index was taken as a point of reference.

31/12/2011: discount rate = 4.75 %
31/12/2010: discount rate = 5.30 %

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

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

	31/12/2011	31/12/2010
Present value of the obligation	5,742	5,897
Unrecognised actuarial gains (losses)	433	543
Book value of employee severance indemnities	**6,175**	**6,440**

The actuarial gains at 31 December 2011 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:

Balance at 31/12/2010	**6,440**
Charge to the income statement	230
Portion paid out during the year	(495)
Employee severance indemnities at 31/12/2011	**6,175**

The charge to the income statement in 2011 refers only to the revaluation of severance indemnities accrued up to 31 December 2006 (booked to financial expense). This is because severance indemnities accruing as from 1 January 2007 are treated like a Defined Contribution Plan, the cost of which is charged directly to income without going through the provision.

4.b. Deferred tax liabilities

The balance at 31 December 2011 is a receivable. Reference should be made to the note on deferred tax assets (2.e) for further details.

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31/12/2011	31/12/2010
Taxation	285	4,499
Provision for agents' termination indemnities	2,788	2,906
Provision for liabilities - Florida Tile	205	151
Other provisions	300	300
	3,578	**7,856**

Taxation amounts to Euro 0.3 million at the end of 2011, versus Euro 4.5 million at the end of 2010, a significant reduction of Euro 4.2 million.

Important changes have taken during the period:

- On 7 April 2011 the Regional Tax Commission, in open court, upheld the appeal of the Tax Authorities, declaring the recovery of the amounts constituting State Aid as legitimate.
- On 13 June 2011 Equitalia served a tax notice for the payment of Euro 4,982 thousand (including tax, fees and interest), payable within 60 days.
- On 1 July 2011, the Tax Authorities agreed that the amount of tax (disputed by Panariagroup Industrie Ceramiche S.p.A requesting partial relief) had been calculated incorrectly and acknowledged a credit of Euro 984 thousand (including tax and interest).
- Panariagroup paid the entire tax bill (Euro 4,982 thousand) on 8 August 2011.
- The reimbursement of Euro 984 thousand was received on 6 December 2011.

Following these events, the tax provision which was established specifically for this risk in previous years has been used up completely; there is no additional costs to come in the future.
The adequacy of the provision made it possible not to have a negative impact on the income statement despite the adverse decision of the Tax Commission.

In November 2011 the EC Court of Justice finally ruled on the question of State aid for newly-listed companies, recognizing the nature of the benefits as illegal aid. The case is therefore to be considered closed.

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).

At 31 December 2011 the residual tax provision includes an amount of Euro 285 thousand to cover a matter 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 2007 onwards are still open for assessment. Management, with support from the Group's tax advisors, believes that the settlement of these open years will not give rise to significant liabilities not already recorded in the consolidated financial statements at 31 December 2011.

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 2010	4.32%
31 December 2011	5.57%

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:

	31/12/2011	31/12/2010
Long-term loans	36,348	42,621
Assisted loans	2,312	1,115
IRB finance lease	10,467	10,769
Other leases	-	4
	49,127	**54,509**

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

- Euro 5.0 million in respect of an unsecured loan taken out by the Parent Company in 2006 originally for Euro 20 million, at a floating rate linked to Euribor and maturing in 2014.
- Euro 2 million in respect of an unsecured loan taken out by the Parent Company in 2007 originally for Euro 10 million, at a floating rate linked to Euribor and maturing in 2013.
- Euro 16.0 million for three unsecured loans taken out by the Parent Company in 2009 at a floating rate linked to Euribor, maturing between 2014 and 2016.
- Euro 3.0 million in respect of a new unsecured loan taken out in 2010 at a floating rate linked to Euribor and maturing in 2015.
- Euro 10.3 million from two unsecured loans taken out by the parent company turned in 2011, at a variable rate linked to Euribor, maturing in 2016

During 2011, the loan on the books of Gres Panaria Portugal S.A. was repaid and shown in the consolidated financial statements at 31 December 2010 for a total (short and long-term portions together) of 4.0 million; extinction was decided following the unilateral imposition of a higher spread by the lender.

"Assisted loans" include:
- an interest-assisted loan of Euro 755 thousand on investments made by the Portuguese company Gres Panaria Portugal S.A.
- an interest-assisted loan of Euro 1,557 thousand for industrial R&D.

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

The "IRB finance lease" relates to the Industrial Revenue Bond operation, detailed in note "2.d Financial assets", and associated with the package of tax incentives obtained for the major investment in the Lawrenceburg factory of Florida Tile Inc. As mentioned previously in connection with the Bond, the decrease in its amount reflects the repayment of principal during 2011 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
12 months	**19,797**	**658**	**(654)**	**19,801**
2013	16,565	654	(654)	16,565
2014	12,027	654	(654)	12,027
2015	6,627	654	(654)	6,627
2016	3,189	654	(654)	3,189
2017	252	654	(654)	252
2018	-	654	(654)	-
2019	-	654	(654)	-
2020	-	654	(654)	-
2021	-	654	(654)	-
Beyond 10 years	-	4,581	(4,581)	-
Long-term	**38,660**	**10,467**	**(10,467)**	**38,660**
Financial payables	**58,457**	**11,125**	**(11,121)**	**58,461**

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

At 31 December 2011, this caption comprises:

	31/12/2011	31/12/2010
Due to suppliers beyond 12 months	1,465	29
Flat-rate taxes beyond 12 months	1,996	-
Accrued rent - Lawrenceburg	398	339
Other	186	192
	4,045	**560**

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

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

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

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

5. EQUITY

Equity consists of:

	31/12/2011	31/12/2010
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,472	3,368
Translation reserve	395	(1,134)
Other reserves and retained earnings	59,881	58,541
Net profit (loss) for the year	1,551	1,444
	153,253	**150,173**

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

To date, no stock option plans have been granted.

The main items making up equity are discussed below.

Share capital

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

Share premium reserve

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

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

Revaluation reserves

The revaluation reserve amounting to Euro 4,493 thousand includes Euro 4,103 thousand for the revaluation of assets at 31 December 2011 under Law 342 of 21.11.2000 and Euro 390 thousand for revaluations carried out in application of previous laws. No deferred taxes have been provided on these reserves, which are subject to the deferral of taxation, since no transactions that would give rise to their distribution and consequent taxation are currently envisaged.

Legal reserve

The legal reserve reported in the consolidated financial statements reflects the corresponding reserve recorded by Panariagroup Industrie Ceramiche S.p.A. It increased during the period thanks to the allocation of 5% from the 2010 net profit.

Translation reserve

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

Other reserves and retained earnings

The other equity reserves are made up as follows:

	31/12/2011	31/12/2010
Extraordinary reserve	41,192	40,693
Payments on capital account	1,077	1,077
Treasury shares in portfolio	(1,614)	(1,614)
Retained earnings and other reserves	19,226	18,385
	59,881	**58,541**

The *Extraordinary reserve* has increased by Euro 499 thousand following the allocation of part of the Parent Company's 2010 net profit.

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

Treasury shares

At 31 December 2011 there are 432,234 treasury shares held in portfolio at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

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

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

"Retained earnings (accumulated losses) and other reserves" of Euro 19,226 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 2011:

- an interest rate swap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on loans obtained in 2006;
- a cap with a notional underlying principal of Euro 10,000 thousand to hedge interest rates on outstanding loans obtained during 2010;
- a cap with a notional underlying principal of Euro 7,000 thousand to hedge interest rates on outstanding loans obtained during 2010.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 140 thousand. The adjustment to fair value at 31 December 2011 involved booking a gain of Euro 57 thousand to the income statement for the period.

GUARANTEES

At 31 December 2011 no guarantees have been given in favour of entities outside of the scope of consolidation.

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

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

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

	31/12/2011	*31/12/2010*
Italy	85,743	83,103
Abroad	210,272	206,891
(Customer rebates)	(4,618)	(4,815)
	291,397	**285,179**

Revenues from sales have increased by 2.2%, rising from Euro 285,179 thousand at 31 December 2010~~1~~ to Euro 291,397 thousand at 31 December 2011 (+Euro 6.2 million).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31/12/2011	**31/12/2010**	**Change**
Expense recoveries (displays, transport)	2,958	2,765	193
Gains on the sale of property	366	67	299
Out-of-period income	468	377	91
Compensation for damages	110	31	79
Grants	823	21	802
Energy income	686	183	503
Other	629	766	(137)
	6,040	**4,210**	**1,830**
% of Value of Production	***2.0%***	***1.4%***	**+0.6%**

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

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

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

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P
Raw materials	41,781	13.8%	38,786	13.2%
Finished products	27,613	9.1%	26,020	8.9%
Packaging	10,485	3.5%	9,527	3.3%
Price lists/Catalogues	1,274	0.4%	1,522	0.5%
Other	287	0.1%	232	0.1%
	81,440	**26.8%**	**76,087**	**26.0%**

7.b. Services, leases and rentals

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

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P.
Property rental	8,943	2.9%	8,840	3.0%
Rent of other fixed assets	2,520	0.8%	2,668	0.9%
Commissions	16,516	5.4%	16,094	5.6%
Utilities	30,037	9.9%	26,442	9.0%
Commercial expenses and advertising	9,334	3.1%	8,741	3.0%
Sub-contract work	13,604	4.5%	14,806	5.1%
Maintenance	8,968	3.0%	9,211	3.1%
Transportation	14,589	4.8%	12,815	4.4%
Industrial services	5,771	1.9%	5,471	1.9%
Directors' and statutory auditors' fees	1,185	0.4%	1,184	0.4%
Consulting fees	3,768	1.2%	3,419	1.2%
Insurance	1,034	0.3%	1,279	0.4%
Other	6,775	2.2%	4,791	1.6%
	123,044	**40.5%**	**115,761**	**39.6%**

"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 3,688 thousand.

7.c. Personnel costs

Personnel costs have increased from Euro 69,863 thousand at 31 December 2010 (23.9% of value of production) to Euro 70,701 thousand at 31 December 2011 (23.3% of value of production).

Personnel costs can be broken down as follows:

	31/12/2011	31/12/2010
Wages and salaries	53,202	51,491
Social security contributions	14,831	15,605
Severance indemnities and other funds	2,147	2,109
Other personnel costs	521	658
	70,701	**69,863**

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

	31/12/2011	31/12/2010
Managers	30	30
Supervisors and white collar workers	650	641
Foremen and blue collar workers	968	1,004
	1,648	**1,675**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2011	% of V.o.P.	31/12/2010	% of V.o.P.
Out-of-period expenses	291	0.1%	195	0.1%
Gifts	73	0.0%	80	0.0%
Trade association fees	97	0.0%	103	0.0%
Losses on disposals	360	0.1%	18	0.0%
Indirect taxes	961	0.3%	1,046	0.4%
Office materials	637	0.2%	652	0.2%
Other	570	0.2%	847	0.3%
	2,989	**1.0%**	**2,941**	**1.0%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

Depreciation and amortisation decreased from Euro 17,402 thousand at 31 December 2010 to Euro 17,621 thousand at 31 December 2011, remaining more or less the same as a percentage of the value of production.

8.b. Provisions and impairments

"Provisions and impairments" of Euro 3,051 thousand include Euro 682 thousand in provisions for agents' termination indemnities, Euro 1,855 thousand in writedowns against receivables and Euro 371 thousand in writedowns against inventories and other provisions for Euro 143 thousand.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2011	31/12/2010
Interest on short-term loans	(512)	(312)
Interest expense on medium/long-term loans	(1,637)	(1,350)
Financial expense on severance indemnity liability	(292)	(291)
Fair value losses on derivatives	-	-
Other	(1,463)	(1,563)
Total financial expense	**(3,904)**	**(3,516)**
Bank interest income	3	1
Interest on receivables	101	100
Fair value gains on derivatives	57	71
Other	84	35
Total financial income	**245**	**207**
TOTAL FINANCIAL INCOME AND EXPENSE	**(3,659)**	**(3,309)**
% of Value of Production	*-1.2%*	*-1.1%*
Exchange losses	(2,374)	(394)
Exchange gains	2,884	1,586
TOTAL EXCHANGE GAINS AND LOSSES	**510**	**1,192**
% of Value of Production	*+0.2%*	*+0.4%*
Financial losses on discounting	-	-
Financial gains on discounting	195	59
DISCOUNTING GAINS (LOSSES)	**195**	**59**
% of Value of Production	*+0.0%*	*+0.0%*
Total financial income (expense)	**(2,954)**	**(2,058)**
% of Value of Production	**-1.0%**	**-0.7%**

"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 2011 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

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)

Rate	Higher (Lower) Profits € mn
1.20	+4.0
1.30	+1.5
1.40	-0.7
1.50	-2.5
1.60	-4.2

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a Income taxes

Income taxes for the year amount to Euro 450 thousand, with a tax rate of 22.5%; the following is a reconciliation of the theoretical tax rate and the effective tax rate:

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

THEORETICAL TAX RATE - ITALIAN TAXES

			Theoretical tax	Theoretical tax rate
A	Pre-tax profit (loss)	2,226		
B	Personnel costs	46,039		
C	Financial expense (net)	(332)		
D	Dividends received	1,188		
A	Theoretical taxable income for IRES purpose	1,038	285	27.50%
A+B+C	Theoretical taxable income for IRAP purpose	46,745	1,823	3.90%
CF1	THEORETICAL TAX CHARGE - ITALIAN TAXES		2,109	94.72%

THEORETICAL TAX RATE - PORTUGUESE TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	3,360	890	26.50%
CF2	THEORETICAL TAX CHARGE - PORTUGUESE TAXES		890	26.50%

THEORETICAL TAX RATE - US TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	(511)	(199)	39.00%
CF3	THEORETICAL TAX CHARGE - US TAXES		(199)	39.00%

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	THEORETICAL TAX CHARGE - TOTAL	2,800	139.91%
	No recognition of deferred tax assets for US taxes	199	9.96%
	Economic impact of freeing up the equity investments	(1,707)	-6.98%
	Tax effect on consolidation adjustments	(459)	-22.94%
	Use of deferred tax liabilities "State Aid"	(293)	-5.78%
	Difference	(90)	-4.49%
	ACTUAL tax charge	450	22.49%

The main factor that helps to lower the tax rate is the positive impact of freeing up the equity investments (already commented on in the note on deferred tax assets), for an amount of Euro 1.7 million.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share are disclosed at the foot of the income statement: € 0.034 per share at 31 December 2011 and € 0.032 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 2011~~0~~ 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	5	-	**5**
Services	30	24	**54**
Total revenues	**35**	**24**	**59**

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,072	**5,072**
Commission for guarantees given	35	-	**35**
Services	60	-	**60**
Total costs	**95**	**5,072**	**5,167**

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

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

	% of Value of Production	% of total revenues	% of pre-tax profit	% of operating cash flow*
Revenues	0.02%	0.02%	2.95%	0.45%
Costs	1.70%	1.77%	258.22%	3.91%

* before changes in working capital

BALANCE SHEET
(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	36	29	65
Payables	-	-	-
Due from (to) tax authorities	489	-	489
Net receivable (payable)	**525**	**29**	**554**

Following the decision to file for tax on a group basis, credits for income tax (IRES) of Euro 489 thousand have been included in receivables from Finpanaria, which as the head of the tax group is responsible for financial dealings with the tax authorities.
All related party transactions are carried out on an arm's length basis.
In this connection, we would call your attention to the fact that a procedure on related-party transactions is now in place in accordance with the Consob Regulation adopted with Resolution 17221 of 12 March 2010 and subsequent amendments.

ATTACHMENTS

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

- Statement of changes in intangible assets and goodwill from 1 January 2011 to 31 December 2011
- Statement of changes in property, plant and equipment from 1 January 2011 to 31 December 2011
- Statement of changes in financial position
- 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

Sassuolo, 15 March 2012

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2011 to 31 December 2011

Panariagroup - Consolidated financial statements

Statement of changes in intangible assets and goodwill
from 1/1/2011 to 31/12/2011
(in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2011	**3,187**	**-**	**3,187**	**12,789**
Increases, net	553	-	553	-
Decreases, net	-	-	-	-
Amortisation	(1,073)	-	(1,073)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidia	30	-	30	-
Balance at 31/12/2011	**2,697**	**-**	**2,697**	**12,789**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2011 to 31 December 2011

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1/1/2011 to 31/12/2011
(in thousands of Euro)

	Land and buildings	**Plant and Machinery**	**Equipment and Other Assets**	**Construction in progress and advances**	**Total**
Balance at 1/1/2011	**26,943**	**48,589**	**13,786**	**900**	**90,218**
Increases, net	632	14,270	2,621	1,521	19,044
Net decreases and impairment	-	(795)	-		(795)
Depreciation	(1,040)	(12,426)	(3,082)		(16,548)
Reclassifications	34	736	142	(912)	-
Exchange differences on foreign subsidiaries		206	96		302
Balance at 31/12/2011	**26,569**	**50,580**	**13,563**	**1,509**	**92,221**

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)

		Rif.	31/12/2011	31/12/2010
	Securities	**1.d**	(654)	(633)
A	Cash and cash equvalents	**1.e.**	(3,101)	(2,328)
	Short-term financial assets		**(3,755)**	**(2,961)**
	Securities	**2.d.**	(10,467)	(10,769)
	Long-term financial assets		**(10,467)**	**(10,769)**
B	Due to banks		29,514	21,931
	Current portion of long-term loans		19,797	15,239
	Leases		658	653
	Short-term financial indebtedness	**3.a.**	**49,969**	**37,823**
	Non-current portion of long-term loans		38,660	43,736
	Due to bondholders		0	0
	Leases		10,467	10,773
	Long-term financial indebtedness	**4.d.**	**49,127**	**54,509**
	Net financial indebtedness		**84,874**	**78,602**

A+B	**Net short-term financial indebtedness**		**26,413**	**19,603**

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

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

EXPLANATORY NOTES - ATTACHMENT 4

- Directors and Officers

Board of Directors

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

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

The board of of Directors' term in office expires at the AGM that approves the 2011 financial statements.

Board of Statutory Auditors

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

Compensation Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Internal Control Committee

Name
Alessandro Iori
Enrico Palandri
Paolo Onofri

Supervisory board

Name
Francesco Tabone
Alessandro Iori
Bartolomeo Vultaggio

Independent Auditors

Deloitte & Touche S.p.A.

EXPLANATORY NOTES - ATTACHMENT 5

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

Type of services	Party providing the services	Recipient	Fees earned in 2011
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	161
	Deloitte & Touche S.p.A.	Florida Tile (*)	75
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	41
Total			277

(*) Wholly owned (direct and indirect) by Panariagroup S.p.A.

PANARIAgroup
INDUSTRIE CERAMICHE 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-*ter* of CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments

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

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

of the administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 31 December 2011.

2. No matters of particular importance 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.

Sassuolo, 15 March 2012

Managing Directors

Paolo Mussini
Andrea Mussini
Emilio Mussini
Giuseppe Mussini
Giuliano Pini

Financial Reporting Manager

Damiano Quarta

PANARIAGROUP

Financial Statements extra-UE Controlled Companies

PANARIAGROUP USA
CONSOLIDATED FINANCIAL STATEMENT

BALANCE SHEET
(THOUSANDS OF DOLLARS)

ASSETS	31/12/2011	31/12/2010
CURRENT ASSETS	**61.546**	**52.717**
Inventories	43.448	35.499
Trade Receivables	13.803	13.384
Due from tax authorities	6	6
Other current assets	1.861	1.885
Cash and cash equivalents	2.428	1.943
NON-CURRENT ASSETS	**37.705**	**37.597**
Goodwill	0	0
Intangible assets	2.002	2.188
Property, plant and equipment	20.908	19.744
Financial assets	13.613	14.460
Deferred tax assets	1.056	1.055
Other non-current assets	126	150
TOTAL ASSETS	**99.251**	**90.314**

LIABILITIES	31/12/2011	31/12/2010
CURRENT LIABILITIES	**22.056**	**31.561**
Due to banks and other sources of finance	1.852	3.872
Trade payables	18.398	25.232
Due to tax authorities	149	256
Other current liabilities	1.657	2.201
NON-CURRENT LIABILITIES	**45.569**	**36.281**
Employee severance indemnities	0	0
Deferred tax liabilities	0	0
Provisions for risks and charges	363	313
Due to banks and other sources of finance	44.451	35.258
Other non-current liabilities	755	710
TOTAL LIABILITIES	**67.625**	**67.842**
EQUITY	**31.626**	**22.472**
Share capital	63.020	53.020
Reserves	(30.541)	(26.737)
Net profit for the year	(853)	(3.811)
TOTAL LIABILITIES AND EQUITY	**99.251**	**90.314**

PANARIAGROUP USA
CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS
(THOUSANDS OF DOLLARS)

	31/12/2011		31/12/2010	
REVENUES FROM SALES AND SERVICES	**92.982**	**89,4%**	**83.266**	**99,8%**
	–	0,0%	–	0,0%
Change in inventories of finished products	8.076	7,8%	(3.065)	-3,7%
Other revenues	2.917	2,8%	3.250	3,9%
VALUE OF PRODUCTION	**103.975**	**100,0%**	**83.451**	**100,0%**
Raw materials	(46.117)	-44,4%	(36.471)	-43,7%
Services, leases and rentals	(31.182)	-30,0%	(25.576)	-30,6%
Personnel costs	(20.795)	-20,0%	(19.386)	-23,2%
Change in inventories of raw materials	–	0,0%	–	0,0%
Other operating expenses	(1.220)	-1,2%	(1.446)	-1,7%
PRODUCTION COSTS	**(99.314)**	**-95,5%**	**(82.879)**	**-99,3%**
GROSS OPERATING PROFIT	**4.661**	**4,5%**	**572**	**0,7%**
Amortisation and depreciation	(3.543)	-3,4%	(3.430)	-4,1%
Provisions and writedowns	(976)	-0,9%	(192)	-0,2%
Non recurring Provisions and Writedowns	#RIF!	#RIF!	#RIF!	#RIF!
NET OPERATING PROFIT	**142**	**0,1%**	**(3.050)**	**-3,7%**
Financial income (expense)	(855)	-0,8%	(522)	-0,6%
PRE-TAX PROFIT	**(713)**	**-0,7%**	**(3.572)**	**-4,3%**
Income taxes	(140)	-0,1%	(239)	-0,3%
NET PROFIT	**(853)**	**-0,8%**	**(3.811)**	**-4,6%**