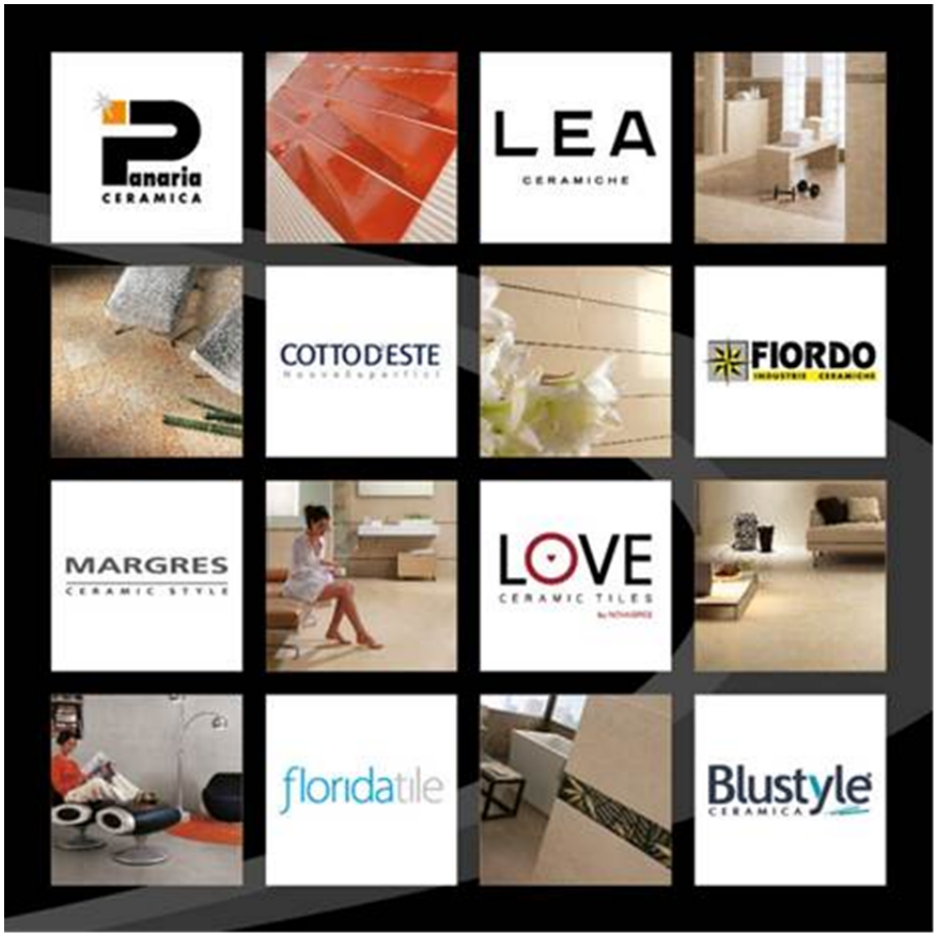
CONSOLIDATED ANNUAL REPORT 2012 - DRAFT



Panariagroup Industrie Ceramiche S.p.A. – Via Panaria Bassa 22/A – 41034 Finale Emilia (MO)
Codice fiscale, Partita IVA 01865640369 www.panariagroup.it

Table of Contents:

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2012, 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 30, 2012.

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, 2012, 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, 2012.

DELOITTE & TOUCHE S.p.A.

Signed by
Mauro Di Bartolomeo
Partner

Bologna, Italy
March 28, 2013

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 2012

(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 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

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

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

- As of 31 December 2012 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 and so we are not required to provide any of the information indicated by the CESR (Committee of European Securities Regulators) in its Recommendation on Alternative Performance Measures (CESR/05-178b).

STRUCTURE OF THE GROUP

The structure of the Group at 31 December 2012 is as follows:

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

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

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

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

Panariagroup USA Inc., based in Delaware, USA, share capital of USD 65,500,000, wholly owned by Panariagroup Industrie Ceramiche S.p.A.

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

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

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

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

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

Panariagroup Immobiliare, with head office in Finale Emilia, Modena (Italy), share capital of Euro 10,000, 100% owned by Panariagroup Industrie Ceramiche S.p.A.
The company's main activities are the purchase and sale of buildings.

Furthermore, during the year the Group participated in the set up of a Joint Venture Company (JVC) in Ahmedabad in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market.

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 2012 Consolidated Financial Statements

Results and significant events in 2012

Results

Shareholders,

As was the case in 2011, international economic activity has again suffered a further slowdown in 2012. A general slowdown that was recorded in the course of the year also affected certain of the more important and dynamic emerging economies, leading to a fall in growth rates, but, in fact, this affected, above all, the more industrialised economies and, in particular, the eurozone, thus implying the deceleration of its more solid economies.

In the construction industry, there was a pronounced diversity in performance in the areas in which the Group is present: in Western Europe, there was a continuation of the phase of extreme weakness, which has characterised for some time the southern part of the eurozone; in North America, we have seen a significant recovery in construction, which continues at a rapid pace; in Asia, brilliant results have been recorded, showing constant growth.

In this context, compared to the same prior year period, our Group suffered a slight fall in turnover and a reduction in operating margins.

- Consolidated revenues from sales amounted to Euro 280.8 million (Euro 291.4 million in 2011), a decrease of 3.6%.
- Gross operating profit came to Euro 21.1 million (Euro 25.6 million in 2011). This was negatively impacted by significant increases in energy prices and indirect expenses caused by the earthquake in Emilia in May 2012.

- There was a net operating loss of Euro 5.5 million (profit of Euro 4.9 million in 2011). The result is influenced by the component “Provisions and impairments” of Euro 6.5 million that includes the writedown of goodwill relating to Gres Panaria Portugal and Montanari Francesco S.r.l. totalling Euro 4.7 million.

- The consolidated net profit amounts to Euro 1.6 million, in line with 2011. This result is positively influenced by the recognition of a deferred tax asset in relation to the Panariagroup USA tax group, recorded by taking account of the achievement of positive results and the high probability of the full recovery of the tax loss carryforwards.

Significant events in 2012

The most significant event that took place in 2012 was undoubtedly the earthquake that, in May, gravely hit Emilia, with its epicentre in Finale Emilia, where one of the Group's six production plants is located. The site suffered significant damage to the plant and buildings that forced us into an unexpected halt in production of over two months, to make all necessary repairs and checks. Production activity restarted gradually and full plant efficiency was just achieved at the end of August; In addition to the lost production, temporary difficulty was encountered in meeting orders for products produced by the factory hit by the earthquake, with a consequent reduction in turnover.

The rapid return to production, considering the extent of the damage, was possible only thanks to the contribution made and the commitment and dedication shown by employees and collaborators, despite they and their families having encountered problems of their own caused by the earthquake.

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

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

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

particularly interesting.

Our Group participated in setting up a Joint Venture Company (hereafter “JVC”) in India, an investment 50% held by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market. The JCV's aim is to develop sales in what currently represents the third ceramics market in the world after China and Brazil in terms of consumption with annual growth rates in excess of 10%. As from August and September, important events were organised in India for the launch of the new commercial organisation and its “Bellissimo” brand; in the last quarter of 2012 the first orders arrived and the first sales were made, obtaining signs of approval for the activities performed until then; prospects for 2013 are to acquire market share in India, to benefit our exports.

Again in 2012, there was a further strengthening of developments of an innovative nature for gres laminate products, which continue to meet with great market consensus, producing important results in terms of sales and profit margins. The peculiarity of this product is its thickness, which is extremely thin (only 3 millimetres), along with very large dimensions (up to 3 metres x 1 metre) that provide advantages in terms of lightness, resistance and versatility. Our Group is currently the largest manufacturer of this type of product in the world.

The international economy and industry trends

The international economic environment has shown, during the course of 2012, further signs of slowdown.

In addition to the euro area that has been hit by deep recession in the peripheral countries and by a deceleration of what had been until then more solid economies (Germany and France), one has seen a modest slowdown of the growth cycle in emerging economies leading to a downward revision of growth in trade and, to a lesser extent, global GDP.

With respect to the construction industry, which is of interest to the Group's activities, during the course of 2012, there were contrasting trends in various geographical areas.

In Italy there was an intensification of the downturn in buying and selling, taking the market back to levels seen in the early nineties; there was surely a negative impact caused by the

tightening of taxation on property, particularly with respect to the demand for housing purchased as an investment. The sharp contraction in the provision of mortgage loans by the banks and the fall in household disposable income were mirrored by a veritable collapse in funding for house purchases. The housing downturn continued, particularly with respect to new housing; the market is hoping for an upturn in the medium term thanks also to the reconfirmation of tax allowances for energy savings and restructuring.

In the main Western European countries (with the exception of Germany) there has been a continuing weakness in construction activities; there is the continuing impact of the overall deterioration in the economy, the increase in the unemployment rate and less willingness by the banking system to finance households and businesses.

In Eastern Europe there has been some recovery in construction in Russia and a weakening of certain markets, even those which had been more dynamic up till then, such as Poland, Hungary and the Czech Republic.

In the United States, again in 2012, there was confirmation of recovery in the property sector; all the indicators tend to show signs of significant expansion in expenditure on residential and commercial construction and there is an intensification of the process of gradual rebalancing in the market, as indicated by the fall in the number of unsold housing, with prices that show an upward trend.

In China the risk of a property bubble has diminished, with the return to productive activity, albeit below the levels seen in 2010-2011; in India the expectation is that the market will be more dynamic as it will be driven by economic and demographic development.

The prospects for 2013 are for a further slowdown in the economy in the euro area, with slightly more moderate expansion than in 2012 in the USA, also due to the uncertainty of decisions regarding fiscal policies, while in China the expansionary monetary policies and the new plan for investment in infrastructure should support a gradual acceleration of growth, just as growth is expected in the other principal emerging economies (Africa and the Middle and Far East).

Review of the Group's 2012 results

Income statement at 31 December 2012 compared with 31 December 2011

(in thousands of euro)

YTD	December 31, 2012	%	December 31, 2011	%	var.
Revenues from sales and services	**280,778**	**94.25%**	**291,397**	**95.97%**	**(10,619)**
Changes in inventories of finished products	1,851	0.62%	6,199	2.04%	(4,348)
Other revenues	6,973	2.34%	6,039	1.99%	934
Income from unexpected events	8,315	2.79%	-		8,315
Value of Production	**297,917**	**100.00%**	**303,636**	**100.00%**	**(5,719)**
Raw, ancillary and consumable materials	(77,278)	-25.94%	(81,440)	-26.82%	4,162
Services, leases and rentals	(119,600)	-40.15%	(123,044)	-40.52%	3,444
Personnel costs	(71,647)	-24.05%	(70,701)	-23.28%	(946)
Changes in inventories of raw materials	521	0.17%	165	0.05%	356
Other operating expenses	(2,946)	-0.99%	(2,989)	-0.98%	43
Costs from unexpected events	(5,871)	-1.97%	-		(5,871)
Cost of production	**(276,821)**	**-92.92%**	**(278,009)**	**-91.56%**	**1,188**
Gross operating profit	**21,096**	**7.08%**	**25,627**	**8.44%**	**(4,531)**
D&A expenses	(17,640)	-5.92%	(17,621)	-5.80%	(19)
Provisions and impairments	(6,502)	-2.18%	(3,051)	-1.00%	(3,451)
Provisions from unexpected events	(2,500)	-0.84%	-		(2,500)
Net operating profit	**(5,546)**	**-1.86%**	**4,955**	**1.63%**	**(10,501)**
Financial income and expense	(3,698)	-1.24%	(2,954)	-0.97%	(744)
Pre-tax profit	**(9,244)**	**-3.10%**	**2,001**	**0.66%**	**(11,245)**
Income taxes estimated	10,835	3.64%	(450)	-0.15%	11,285
Net profit for the period	**1,591**	**0.53%**	**1,551**	**0.51%**	**40**

Consolidated revenues

Revenues from sales in 2012 declined by **3.6%** overall, falling from Euro 291.4 million in the year ended 31 December 2011 to Euro 280.8 million in the year ended 31 December 2012.

Principal markets

Turnover has been characterised by two distinct factors, on one hand the contraction encountered in Western European markets and, on the other, significant growth in North-American market and in Asian markets, in particular Middle and Far East.

North America

Sales for 2012 in the US market, which currently represents the Group's principal market, totalled Euro 80.4 million, up 24% compared with 2011. The sales were supported by the recovery in the property sector and the introduction of new collections that have found favour with customers.

Confirmation has been provided of the excellent results achieved by the Florida Tile stores, as well as by the other distribution channels. The U.S. market share in 2012 represents 28% of total Group sales.

Europe

In 2012 the European market recorded an overall contraction of 13.7% compared to 2011. The entire decrease in sales is attributable to EU countries, which have suffered a downturn compared to prior year of 15.4%, with the principal contractions having occurred in Portugal, France, Holland and Belgium.

Sales in Eastern Europe have remained more or less unchanged compared with 2011.

European market share represents 36% of total sales.

Italy

Compared to 2011, the Italian market recorded a fall in turnover of 15.5%, substantially in line with figures for the sector. In 2012 the crisis in the property sector recorded a new negative peak, with a sharp fall in expenditure on residential and commercial construction, just slightly mitigated by work on restructuring and redevelopment.

The Italian market share represents some 26% of total revenues.

Asia, Oceania and Africa

Overseas markets were confirmed as being more dynamic, with overall growth in these areas of 9% compared with 2011. The main increases took place in Saudi Arabia, Japan, Qatar and the United Arab Emirates.

The weighting of these markets against the Group's total sales is 10%.

Performance of the Group's brands

In terms of sales of individual brands, the trend has been linked to macro-economic trends of the relevant areas of reference.

The traditional Italian brands (Panaria, Lea, Cotto d'Este and Fiordo), concentrated in the domestic market and in the main Western European markets, have inevitably recorded a slowdown, which occurred in a homogeneous manner, while the most recent Italian brand (Blustyle) continues the growth trend seen in prior years. Lastly, Panariagroup Trade, which presides over overseas markets, achieved a very good performance, also with respect to the results of Italian competitors, particularly in the Middle East.

The Portuguese brands Margres and Love Tiles were significantly impacted by difficulties in the Lusitanian economy, which up till 2011 represented more than 40% of sales and by stagnation in the main European markets towards which foreign commercial activity is orientated. It should be noted how the reorganisation that took place in 2011, with the integration of the sales structures of the two brands, was successful and permitted the performance in international markets to limit the loss of sales in the domestic market.

The US brands (Florida Tile, Panariagroup USA and Lea North America) achieved, overall, very favourable results, aided certainly by the economic recovery in the reference market, but supported, above all, by the excellent work carried out over the years that led to the renewal of the product range and of the commercial structures.

In relation to the latter, excellent results have been confirmed, with these having been achieved through the network of Florida Tile stores, as well as sales to independent distributors.

Operating results

Gross operating profit came to Euro 21.1 million, representing 7.1% of the value of production (Euro 25.6 million, 8.4%, in 2011)

The main factors behind this decrease in Group profitability are:

- An increase in energy prices; price increases for the European business units were 24% for electricity and 17% for gas, with an overall negative impact of Euro 4.5 million;
- a fall in the margin due to the impact of lower turnover of the European Business Units;
- a significant improvement in margins of the American business unit, driven by a considerable increase in sales and a decrease in unit production costs.

The **net operating loss** of Euro 5.5 million is particularly impacted by the cost component "Provisions and impairments", of which Euro 4.7 million relates to the impairment of goodwill relating to Gres Panaria Portugal and Montanari Francesco S.r.l.

It is important to note that the **operating result (gross and net)** was notably aggravated by the effects of the earthquake in Emilia; whereas the direct damage was substantially neutralised by insurance cover, the income statement is penalised by the significant effects of indirect damage, which is difficult to quantify.

This includes:

- lower output at the plant in Finale Emilia, which had to be suspended for two months, gradually recovering full efficiency by the end of August.
- the cost of relocation of production originally planned for the Finale Emilia plant to other Group factories;
- a delay in the presentation of new collections, which were undergoing a phase of study at the research and development laboratories in Finale Emilia;
- a slowdown in shipments and a consequent reduction in turnover of the Italian business unit;

- the great effort that all the Finale Emilia workers had to make to overcome the complex technical and organisational difficulties caused by the earthquake, diverting them from ordinary activities;
- the burden of depreciation and amortisation and rent payable for the Finale Emilia plant that were fully expensed even in the months in which production was suspended and slowed down subsequent to the earthquake.

The depreciation and amortisation charge is substantially in line with 2011.

Interest expense, on the other hand, remained at much the same level as last year.
The worsening of financial items compared to 2011 is almost entirely due to fluctuations in the euro / dollar exchange rate over the two financial years, whereas there was a net exchange gain of Euro 0.5 million in 2011.

The **pre-tax result** is a loss of Euro 9.2 million (versus a profit of Euro 2 million at 31 December 2011).

Estimated income taxes show a debit balance of 10.8 million. This amount is impacted by two main factors:

- the recognition of a deferred tax asset of Euro 7.2 million in relation to the Panariagroup USA tax group, which includes the subsidiaries Florida Tile and Lea North America. In 2012, these companies, which belong to the American business unit, achieved a considerable amount of pre-tax income and they confirmed the improving trend of prior years, both in terms of turnover and earnings. Accordingly, in light of the extent and continuity of the improvement of the results and of the Business Plan approved by the directors, it is believed that the recovery of the tax losses carried-forward is highly probable, within the time limit permitted by US law.
- the non taxation, which is allowed for tax purposes, of the insurance payment for damages caused by the earthquake that provides a benefit of Euro 2.9 million; this relates to a concession granted under legislation issued to aid those hit by the earthquake and that compensates only partially the indirect damage of the earthquake.

Consolidated net profit amounted to Euro 1.6 million (Euro 1.6 million also in 2011).

The 2012 financial statements were impacted by various factors, both positive and negative, which were not of an ordinary nature and were significant in size.

The operating results only reflect the negative effects related to the indirect costs triggered by the earthquake and the impairment of goodwill of subsidiaries Gres Panaria and Montanari.

The net profit, over and above the aforementioned negative effects, also reflects the positive effects, such as deferred tax assets of Panariagroup USA and the tax benefit granted because of the earthquake.

Review of the balance sheet

Summary of the financial position

(in thousands of Euro)

	December 31, 2012	December 31, 2011
Inventories	144,591	142,134
Accounts Receivable	72,048	82,997
Other current assets	16,038	6,436
CURRENT ASSETS	**232,677**	**231,567**
Accounts Payables	(59,772)	(62,306)
Other current liabilities	(25,459)	(26,506)
CURRENT LIABILITIES	**(85,231)**	**(88,812)**
NET WORKING CAPITAL	**147,446**	**142,755**
Goodwill	8,139	12,789
Intangible assets	2,425	2,697
Tangible assets	91,625	92,221
Equity Investments and other financial fixed assets	361	5
FIXED ASSETS	**102,550**	**107,712**
Receivables due after the following year	441	261
Provisions for termination benefits	(5,843)	(6,175)
Provisions for risks and charge and deferred taxes	3,823	(2,381)
Other payables due after the year	(2,575)	(4,045)
ASSETS AND LIABILITIES DUE AFTER THE YEAR	**(4,154)**	**(12,340)**
NET CAPITAL EMPLOYED	**245,842**	**238,127**

Short term financial assets	(4,559)	(3,101)
Short term financial debt	37,116	49,316
NET SHORT TERM FINANCIAL DEBT	**32,557**	**46,215**
Mid-long term financial debt	59,590	38,659
NET FINANCIAL POSITION	**92,147**	**84,874**
Group Shareholders' Equity	153,695	153,253
SHAREHOLDERS' EQUITY	**153,695**	**153,253**
TOTAL SOURCES OF FUNDS	**245,842**	**238,127**

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

Net working capital

If compared with the 31 December 2011 balance, working capital shows an increase of Euro 4.7 million; the main factors that have generated this change are attributable to:

- an increase in “Other current assets” of Euro 9.6 million due to 3 factors: the recognition of a “residual insurance receivable for earthquake damage” of Euro 1.9 million, the tax credit for the claim made for reimbursement relating to the deductibility from IRAP of personnel costs for IRES purposes of Euro 1.7 million and the increase in the VAT receivable of Euro 6.0 million. The Group's VAT position is normally in credit, because of the high proportion of exports; the significant increase with respect to 31 December 2011 is due to the considerable drop in turnover in the domestic market recorded by Panariagroup and by Gres Panaria Portugal in the last quarter;
- the decrease in trade receivables of Euro 10.9 million is attributable to the significant drop in turnover recorded in the Italian and Portuguese markets, characterised by longer average collection times;
- a decrease in trade payables of Euro 2.5 million, linked to the reduction in plant suppliers;
- a slight increase in the value of inventories of Euro 2.4 million.

Non-current assets

Non-current assets have decreased by Euro 5.2 million in 2012.

Of this change, Euro 4.7 million was due to a decrease in goodwill and Euro 0.9 million was due to a decrease in tangible and intangible fixed assets; offsetting these decreases was an increase in financial fixed assets of Euro 0.4 million.

The decrease in the value of goodwill is the result of an impairment adjustment recorded in the year to the original value of this component in relation to the subsidiaries Gres Panaria Portugal and Montanari Francesco S.r.l.

The overall decrease in tangible and intangible fixed assets is due to:

- net capital expenditure of Euro 17.3 million relating to Euro 7.1 million of implementations made at the Italian plants, Euro 2.5 million of capital expenditure at the Portuguese plants and Euro 7.7 million of significant capital expenditure made at the American plant in Lawrenceburg.
- the lower value of fixed assets of the US sub-consolidation expressed in Euro, because of the appreciation of the dollar since the end of 2011, of Euro 0.3 million.
- decreases attributable to the earthquake of Euro 0.3 million.
- depreciation and amortisation for the period of Euro 17.6 million.

The increase in financial fixed assets of Euro 0.4 million relates to the capital contribution made to set up the Joint Venture Asian Panaria and Panariagroup Immobiliare S.r.l.

Assets and liabilities due beyond 12 months

Assets and liabilities due beyond 12 months fell by Euro 8.2 million versus 2011. The change is mainly due to the increase in the deferred tax asset relating to “tax losses carried-forward”.

Net financial indebtedness

Financial cash flow
(thousands euro)

	December 31, 2012	December 31, 2011
Net financial position (debt) - beginning	**(84,874)**	**(78,602)**
Net Result for the period	1,591	1,551
D & A	22,290	17,621
Net Variation Provisions	(7,204)	(1,953)
Internal operating Cash flow	**16,677**	**17,219**
Change in net working capital	(5,675)	(1,886)
Dividend distribution	0	0
Net Investments	(17,381)	(18,804)
Reimbursement of tax benefit "State Aid"	0	(3,999)
Other movements	(893)	1,198
Net financial position (debt) - final	**(92,146)**	**(84,874)**

Net financial indebtedness has increased since the beginning of the year by Euro 7.2 million. Two factors have contributed to this result: an increase in working capital as previously described above and significant capital expenditure made in the year.

Equity

Equity went up from Euro 153.3 million to Euro 153.7 million, with an increase of 0.4 million.

The increase is attributable to the net profit for the year of 1.6 million and the negative effect of the translation of the financial statements of foreign companies to Euro of 1.2 million.

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 is 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	**132,664**	**48,218**	**49,057**	**7,938**	**237,877**
Inventories	84,888	25,076	34,627	0	144,591
Trade receivables	33,998	18,114	11,998	7,938	72,048
Due from tax authorities	5,855	4,625	37	0	10,517
Other current assets	4,578	316	1,268	0	6,162
Cash and cash equivalents	3,345	87	1,127	0	4,559
NON-CURRENT ASSETS	**44,154**	**37,333**	**40,332**	**355**	**122,174**
Goodwill	350	7,789	0	0	8,139
Intangible assets	750	241	1,434	0	2,425
Property, plant and equipment	38,678	31,694	21,253	0	91,625
Financial assets	4	0	9,624	355	9,983
Deferred tax assets	4,008	(2,391)	7,944	0	9,561
Other non-current assets	364	0	77	0	441
TOTAL ASSETS	**176,818**	**85,551**	**89,389**	**8,293**	**360,051**
	Italy	**Europe**	**USA**	**Other**	**Total**
Investments in tangible assets 2012	**6,922**	**2,321**	**7,640**	**0**	**16,883**

Research and development activities

Research and development activities, a distinguishing feature of our Group in this sector, continued as before during 2012.

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

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

The new product lines created in 2012, and in particular those presented at CERSAIE 2012 (the industry's most important trade fair, both in Italy and world-wide, which took place in September in Bologna) 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 2012 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 profit with the corresponding consolidated amounts

As required by CONSOB Communication DEM/6064293 of 28 July 2006, the following table reconciles the Parent Company's equity and net results with the corresponding consolidated amounts reported at 31 December 2012 (in thousands of euro):

	Equity	Net Income (Loss)
As per Panariagroup Industrie Ceramiche SpA's financial statements (Parent company)	**143,394**	**3,802**
a) Difference between the book value of equity investments and their value using the equity method	14,990	8,459
b) Elimination of unrealised gains arising on the intercompany transfer of inventories	(734)	(180)
c) Reversal of exchange losses (gains) on intercompany loan	0	417
d) Alignment to Group depreciation's rates	172	(22)
e) Recognition of deferred tax assets and (liabilities) reflecting the tax effect (where applicable) of consolidation adjustments	90	15
f) Elimination of unrealised gains arising from dividend distribution	0	0
g) Revaluation of the carrying value of investments in subsidiaries	0	(6,600)
h) Decrise of Goodwill for Impairment	(4,300)	(4,300)
i) Others	82	0
Net effect of consolidation adjustments	**10,300**	**(2,211)**
As per consolidated financial statements	**153,694**	**1,591**

Treasury shares and/or ultimate parent company shares

In execution of the resolution passed at the Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. on 24 April 2012, the Company has renewed a stock buy-back programme which stood as follows at 31 December 2012:

Treasury shares

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

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

Panariagroup Industrie Ceramiche S.p.A., the Parent Company, does not own any shares or quotas in the ultimate parent companies, nor did it own or trade in such shares or quotas during 2012; there are therefore no disclosures to be made in accordance with article 2428 - paragraph 2, points 3 and 4 of the Italian Civil Code.

Atypical and/or unusual transactions

As required by CONSOB Communication DEM/6064293 of 28 July 2006, 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 2012.

Outlook for Group operations

The beginning of 2013 has also been characterised by a strong climate of uncertainty and in the developed economies, particularly in the eurozone, difficulties in economic growth have been confirmed. We thus believe that in the current year the “traditional” Western European countries in which the Group operates, particularly Italy and Portugal, will continue to show signs of economic recession with repercussions for our turnover, while we again confirm for 2013 the expectations for excellent results in the North American market.

We will continue to pursue a strategy of internationalisation that will permit us, on one hand, to further balance the market risk, already implemented with success through our presence on the North American market, and, on the other hand, to pursue an expansion in business and an increase in turnover in emerging areas (Asia, Africa and South America). Our commitment in this direction is by now consolidated and we believe it can be the right solution to guarantee the future development of our activities.
The set up of the Panariagroup Trade division that operates in Asian markets and the recent formation of the Indian JVC are some examples that testify to the willingness of the Group to further widen its horizons in the most promising markets.

Report on Corporate Governance and the Ownership Structure

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

Risk management

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

GENERAL ECONOMIC RISK

The financial markets became especially volatile during 2012, with serious consequences both for numerous financial institutions and, more generally, for the economy as a whole. The precarious state of market conditions has been accentuated by a severe and generalised credit squeeze for both consumers and companies. This liquidity shortage is having negative repercussions on the industrial development of many business sectors, ours included. Should this situation of weakness and uncertainty become protracted, the activities, strategies and prospects for our Group could be adversely affected, with a negative impact on the balance sheet, income statement and cash flows of the Group.

CREDIT AND LIQUIDITY RISK

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

RISK OF DEPENDENCE ON KEY PERSONNEL

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

MARKET RISK

Competition risk:

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

Raw material price risk:

The raw materials used in the production of ceramics for floor and wall coverings such as gas, electricity and clay accounted for more than 25.0% of the value of production in both 2011 and 2012. An unexpected increase in their prices could therefore have a negative impact on the Group's results in the short term. However, management believes that the possibility of revising price lists, given the Group's positioning in the high end luxury market which is less sensitive to price variations, should mitigate such effects in the medium term.

Environmental protection, personnel costs and regulations relating to the sector

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

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

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

The average workforce in 2012 was of 1,627 persons, a decrease of 21 employees compared with 2011.

Consob resolution 11971 of 14 May 1999

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

- ART. 79 -

TABLE 2 - INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS AT 31/12/2012

Name	Investment held in	Number of shares held at the end of prior year	Number of shares purchased in 2012	Number of shares sold in 2012	Number of shares held at 31/12/2012	Type of holding	Type of ownership
Mussini Giuliano	Panariagroup	506,282	287,862		794,144	Direct	Property
		4,400			4,400	Spouse	Property
Mussini Giovanna	Panariagroup	142,534	46,830		189,364	Direct	Property
Pini Giuliano	Panariagroup	55,617	8,000		63,617	Direct	Property
		4,880	3,000		7,880	Spouse	Property
Mussini Emilio	Panariagroup	89,436	50,000		139,436	Direct	Property
		3,080	10,000		13,080	Spouse	Property
Mussini Giuseppe	Panariagroup	56,400			56,400	Direct	Property
		30,400			30,400	Spouse	Property
Mussini Andrea	Panariagroup	438,359	195,500		633,859	Direct	Property
Mussini Marco	Panariagroup	42,560			42,560	Direct	Property
		9,340			9,340	Spouse	Property
Mussini Paolo	Panariagroup	90,000	40,000		130,000	Direct	Property
Iori Alessandro	Panariagroup	440			440	Direct	Property
		4,200			4,200	Spouse	Property
Palandri Enrico	Panariagroup	-			-	Direct	Property
Onofri Paolo	Panariagroup	-			-	Direct	Property
Ascari Pier Giovanni	Panariagroup	-			-	Direct	Property
Premoli Trovati Stefano	Panariagroup	-			-	Direct	Property
Pincelli Vittorio	Panariagroup	-			-	Direct	Property

ATTACHMENTS

- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2012
- Reconciliation between the reclassified balance sheet and the IFRS-format balance sheet at 31 December 2011
- Reconciliation between the summary of cash flows and the IFRS-format cash flow statement

The Chairman

Sassuolo, 22 March 2013 ***Emilio Mussini***

Reconciliation IFRS Statement of Financial Position/Reclassified Statement of Financial Position figures at 31/12/2012

STATEMENT OF FINANCIAL POSITION- IFRS

ASSETS	31/12/2012	RIF
CURRENT ASSETS	237,877	
Inventories	144,591	(A)
Trade receivables	72,048	(B)
Due from tax authorities	10,517	(C)
Other current assets	6,162	(D)
Cash and cash equivalents	4,559	(E)
NON -CURRENT ASSETS	122,174	
Goodwill	8,139	(F)
Intangible assets	2,425	(G)
Property, plant and equipment	91,625	(H)
Financial assets	9,983	(I)
Deferred tax assets	9,561	(R)
Other non-current assets	441	(L)
TOTAL ASSETS	360,051	

LIABILITIES AND EQUITY	31/12/2012	
CURRENT LIABILITIES	122,988	
Due to banks and other sources of finance	37,757	(M)
Trade payables	59,772	(N)
Due to tax authorities	2,849	(O)
Other current liabilities	22,610	(P)
NON-CURRENT LIABILITIES	83,368	
Employee severance indemnities	5,843	(Q)
Deferred tax liabilities	-	(R)
Provisions for risks and charges	5,738	(S)
Due to banks and other sources of finance	69,212	(T)
Other non- current liabilities	2,575	(U)
TOTAL LIABILITIES	206,356	
EQUITY	153,695	
Share capital	22,678	(V)
Reserves	129,426	(W)
Net result for the year	1,591	(X)
TOTAL LIABILITIES AND EQUITY	360,051	

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

	31/12/2012	RIF
Inventories	144,591	(A)
Trade receivables	72,048	(B)
Other current assets	16,038	(C)+(D)-(*)
CURRENT ASSETS	232,677	
Trade payables	(59,772)	(N)
Other current liabilities	(25,459)	(O) + (P)
CURRENT LIABILITIES	(85,231)	
NET WORKING CAPITAL	147,446	
Goodwill	8,139	(F)
Intangible assets	2,425	(G)
Property, plant and equipment	91,625	(H)
Equity investments and financial assets	361	(I) - (**)
FIXED ASSETS	102,550	
Receivables due beyond 12 months	441	(L)
Employee severance indemnities	(5,843)	(Q)
Provisions for risks and charges and deferred taxation	3,823	(R)+(S)
Other liabilities due beyond 12 months	(2,575)	(U)
ASSETS AND LIABILITIES DUE BEYOND 12 MONTHS	(4,154)	
NET CAPITAL EMPLOYED	245,842	
Short-term financial assets	(4,559)	(E)
Short-term financial indebtedness	37,116	(M) - (*)
NET SHORT-TERM FINANCIAL INDEBTEDNESS	32,557	
Long -term financial indebtedness	59,590	(T) - (**)
NET LONG-TERM FINANCIAL INDEBTEDNESS	59,590	
NET FINANCIAL POSITION	92,147	
Group interest in equity	153,695	(V)+(W)+(X)
EQUITY	153,695	
TOTAL SOURCES	245,842	

(*) CURRENT PORTION OF IRB **641**
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 **9,622**
Classified under financial assets in the IFRS statement of financial position
Included in the long-term financial indebtedness in the reclassified statement of financial position

PANARIAgroup
INDUSTRIE CERAMICHE S.P.A.

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

STATEMENT OF FINANCIAL POSITION- IFRS

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

LIABILITIES AND EQUITY	31/12/2011	
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

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.

		31/12/2012	
	Short-term securities	(641)	
A	Cash and cash equivalents	(4,559)	
	Short-term financial assets	**(5,200)**	
	Long-term securities	(9,622)	
	Long-term financial assets	**(9,622)**	
B	Due to banks	20,335	
	Current portion of long-term loans	16,780	
	Leases	642	
	Short-term financial indebtedness	**37,757**	
	Non-current portion of long-term loans	59,589	
	Leases	9,623	
	Long-term financial indebtedness	**69,212**	
C	**Net indebtedness**	**92,147**	
	Net short-term financial indebtedness	**15,776**	**= A + B**
	(as reported in IFRS cash flow statement)		
	Total net financial position	**92,147**	**= C**
	(as reported in summary of cash flow contained in the Directors' Report)		

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

	31/12/2012	
A - OPERATIONS		
Net profit of the year	1,591	A
Depreciation and amortisation	22,290	B
Deferred tax liabilities (assets)	(8,364)	C
Net change in tax provision for "state aid"	-	D
Net change in provisions	1,160	E
Cash flow (absorption) of operations prior to changes in working capital	*16,677*	
(Increase)/decrease in trade receivables	10,617	
(Increase)/decrease in inventories	(1,457)	
Increase/(decrease) in trade payables	(2,534)	
Net change in other assets/liabilities	(12,301)	
Cash flow (absorption) from operations due to changes in working capital	*(5,675)*	F
Total (A) Cash flow from operations	**11,002**	
B - INVESTMENT ACTIVITY		
Net investment in property, plant and equipment and intangible assets	(17,028)	H
Net investment in financial assets	(353)	J
Exchange difference on property, plant and equipment and intangible assets	256	K
Total (B) Cash flow (absorption) from investment activity	**(17,125)**	
C - FINANCING ACTIVITY		
Increase in capital	-	
Distribution of dividends	-	G
Other changes in equity	-	
(Purchase) Sale of treasury shares	-	M
Net change in loans	17,909	
Total (C) Cash flow (absorption) from financing activities	**17,909**	
Opening net cash (indebtedness)	**(26,413)**	
Change in the translation reserve	**(1,149)**	N
Net change in short-term net cash (indebtedness) (A+B+C)	**11,786**	
Closing net cash (indebtedness)	**(15,776)**	**(X)**

Summary of cash flows
(in thousands of Euro)

	31/12/2012	
Financial position - opening balance	**(84,874)**	
Net profit for the period	1,591	A
Depreciation and amortisation	22,290	B
Net change in other provisions	(7,204)	C+E
Self-financing	**16,677**	
Change in net working capital	(5,675)	F
Dividends	0	G
Net investments	(17,381)	H +J
Reimbursement of tax benefit "State Aid"	0	D
Other changes	(893)	M + N + K
Financial position - closing balance	**(92,146)**	**(Z)**

PANARIAGROUP

CONSOLIDATED FINANCIAL STATEMENTS

PANARIAGROUP
CONSOLIDATED FINANCIAL STATEMENT

STATEMENT OF FINANCIAL POSITION
(THOUSANDS OF EURO)

rif	ASSETS	31/12/2012	31/12/2011
	CURRENT ASSETS	**237,877**	**235,321**
1.a	Inventories	144,591	142,134
1.b	Trade Receivables	72,048	82,997
1.c	Due from tax authorities	10,517	3,578
1.d	Other current assets	6,162	3,511
1.e	Cash and cash equivalents	4,559	3,101
	NON-CURRENT ASSETS	**122,174**	**119,638**
2.a	Goodwill	8,139	12,789
2.b	Intangible assets	2,425	2,697
2.c	Property, plant and equipment	91,625	92,221
2.d	Financial assets	9,983	10,473
2.e	Deferred tax assets	9,561	1,197
2.f	Other non-current assets	441	261
	TOTAL ASSETS	**360,051**	**354,959**

	LIABILITIES	31/12/2012	31/12/2011
	CURRENT LIABILITIES	**122,988**	**138,781**
3.a	Due to banks and other sources of finance	37,757	49,969
3.b	Trade payables	59,772	62,306
3.c	Due to tax authorities	2,849	2,324
3.d	Other current liabilities	22,610	24,182
	NON-CURRENT LIABILITIES	**83,368**	**62,925**
4.a	Employee severance indemnities	5,843	6,175
4.b.	Deferred tax liabilities	0	0
4.c	Provisions for risks and charges	5,738	3,578
4.d	Due to banks and other sources of finance	69,212	49,127
4.e	Other non-current liabilities	2,575	4,045
	TOTAL LIABILITIES	**206,356**	**201,706**
5	**EQUITY**	**153,695**	**153,253**
	Share capital	22,678	22,678
	Reserves	129,426	129,024
	Net profit for the year	1,591	1,551
	TOTAL LIABILITIES AND EQUITY	**360,051**	**354,959**

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

CONSOLIDATED FINANCIAL STATEMENT

INCOME STATEMENT - IFRS

(THOUSANDS OF EURO)

rif		31/12/2012		31/12/2011	
6.a	**REVENUES FROM SALES AND SERVICES**	**280,778**	**94.2%**	**291,397**	**96.0%**
	Change in inventories of finished products	1,851	0.6%	6,199	2.0%
6.b	Other revenues	6,973	2.3%	6,040	2.0%
11.a	Income from unexpected events	8,315	2.8%	–	0.0%
	VALUE OF PRODUCTION	**297,917**	**100.0%**	**303,636**	**100.0%**
7.a	Raw materials	(77,278)	-25.9%	(81,440)	-26.8%
7.b	Services, leases and rentals	(119,600)	-40.1%	(123,044)	-40.5%
	of which, related party transactions	*(5,402)*	*-1.8%*	*(5,132)*	*-1.7%*
7.c	Personnel costs	(71,647)	-24.0%	(70,701)	-23.3%
	Change in inventories of raw materials	521	0.2%	165	0.1%
7.d	Other operating expenses	(2,946)	-1.0%	(2,989)	-1.0%
11.a	Costs from unexpected events	(5,871)	-2.0%	–	0.0%
	PRODUCTION COSTS	**(276,821)**	**-92.9%**	**(278,009)**	**-91.6%**
	GROSS OPERATING PROFIT	**21,096**	**7.1%**	**25,627**	**8.4%**
8.a	Amortisation and depreciation	(17,640)	-5.9%	(17,621)	-5.8%
8.b	Provisions and writedowns	(6,502)	-2.2%	(3,051)	-1.0%
11.a	Provisions from unexpected events	(2,500)	-0.8%	–	0.0%
	NET OPERATING PROFIT	**(5,546)**	**-1.9%**	**4,955**	**1.6%**
9.a	Financial income (expense)	(3,698)	-1.2%	(2,954)	-1.0%
	PRE-TAX PROFIT	**(9,244)**	**-3.1%**	**2,001**	**0.7%**
10.a	Income taxes	10,835	3.6%	(450)	-0.1%
	NET PROFIT	**1,591**	**0.5%**	**1,551**	**0.5%**
	BASIC AND DILUTED EARNING PER SHARE	**0.035**		**0.034**	

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)

	31/12/2012	31/12/2011
NET PROFIT (LOSS) FOR THE PERIOD	**1,591**	**1,551**
OTHER COMPONENTS OF COMPREHENSIVE INCOME		
Exchange rate differences from foreign operations	(1,149)	1,529
COMPREHENSIVE INCOME FOR THE PERIOD	**442**	**3,080**

(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 2012	31st December 2011
A - OPERATIONS		
Net Result of the period	1,591	1,551
Amortisation, depreciation and impairments	22,290	17,621
Deferred tax liabilities (assets)	(8,364)	(3,635)
Net change in tax provision for "state aid"		(3,999)
Net change in provisions	1,160	1,682
Cash flow (absorption) from operations prior to changes in working capital	*16,677*	*13,220*
(Increase)/Decrease in trade receivables	10,617	(1,205)
(Increase)/Decrease in inventories	(1,457)	(7,562)
(Increase)/Decrease in trade payables	(2,534)	2,359
Net change in other current assets/liabilities	(12,301)	4,522
Cash flow (absorption) from operations due to changes in working capital	*(5,675)*	*(1,886)*
TOTAL (A) CASH FLOW FROM OPERATIONS	**11,002**	**11,334**
B - INVESTMENT ACTIVITY		
Net investment in tangible and intangible assets	(17,028)	(18,804)
Net investment in financial assets	(353)	
Exchange difference on tangible and intangible assets	256	(332)
TOTAL (B) CASH FLOW (ABSORPTION) FROM INVESTMENT ACTIVITY	**(17,125)**	**(19,136)**
C - FINANCING ACTIVITY		
Increase in capital		
Distribution of dividends		
Other changes in equity		
(Purchase) Sale of treasury shares		
Net change in loans	17,909	(537)
TOTAL (C) CASH FLOW (ABSORPTION) FROM FINANCING ACTIVITIES	**17,909**	**(537)**
Opening net cash (indebtedness)	**(26,413)**	**(19,603)**
Change in the translation reserve	**(1,149)**	**1,529**
Net change in net short-term cash (indebtness) (A+B+C)	**11,786**	**(8,339)**
Closing net cash (indebtness)	**(15,776)**	**(26,413)**
Supplementary information		
Interest paid	2,245	2,149
Income taxes paid	117	8,665

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in consolidated equity from 1 January 2011 to 31 December 2012

(THOUSANDS OF EURO)	*Share capital*	*Share premium reserve*	*Revaluation reserves*	*Legal reserve*	*Other reserves*	*Translation reserve*	*Retained earnings*	*Net profit (loss) attributable to the Group*	*Total equity*
Balance as of 01.01.2011	**22,678**	**60,783**	**4,493**	**3,368**	**40,402**	**(1,134)**	**18,139**	**1,444**	**150,173**
Translation of foreign company financial statements into Euro						1,023			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)	
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 of foreign company financial statements into Euro						(732)			(732)
Exchange difference on loans to foreign companies						(417)			(417)
Total gains (losses) booked directly to equity						**(1,149)**			**(1,149)**
Allocation of net profit				109	1,442			(1,551)	
Net result for the year								1,591	1,591
Balance as of 31.12.2012	**22,678**	**60,783**	**4,493**	**3,581**	**43,184**	**(754)**	**18,139**	**1,591**	**153,695**

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 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officially approved by the European Union, as well as with the instructions issued in implementation of article 9 of Decree 38/2005.
The term IFRS is understood as including all of the international accounting standards (IAS), suitably revised, and all of the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).

The 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 2012 (hereafter also referred to as "the consolidated financial statements") is the euro. The Group's foreign operations are included in the consolidated financial statements using the principles indicated in the section below entitled “Accounting Principles”.

The consolidated financial statements includes:

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

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

- The consolidated income statement for the year ended 31 December 2012, with comparative figures for the year ended 31 December 2011.

  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 margin:* this is made up of the pre-tax result before financial income and expenses, depreciation and amortisation, provisions and impairment charges made during the period and provisions and impairment charges due to the effects of the earthquake;
- *Net operating margin:* this is made up of the pre-tax result before financial income and expenses;
- *Pre-tax profit (loss):* this is made up of the result for the period before income taxes.

In order to clearly present the impact on the results of the earthquake that hit Emilia Romagna in May 2012, specific captions have been included in the income statement:

- In the "Value of production" section a line has been added called "Income from extraordinary events" which encompasses the components of value of production pertaining to this event (insurance payouts and change in inventories of finished products), gross of the tax effect;
- in the "Cost of production" section a line has been added called "Cost of extraordinary events" which encompasses the components of cost of production incurred as a consequence of the earthquake (restoration costs, change in inventories of raw materials and semi-finished products, etc.), gross of the tax effect;
- in the "Provisions, writedowns and depreciation and amortisation" section a line has been added called "Provisions for extraordinary events" which has been used for the classification of expenses still to be incurred for the completion of restoration to their original state of buildings and plant damaged by the earthquake, gross of the tax effect.

This approach has been taken in accordance with the requirements of paragraph 83 of "IAS 1 Presentation of Financial Statements": "*Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance*".

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

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

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

- A consolidated cash flow statement for 2012 and 2011. The so-called "indirect method" has been used in drawing up the cash flow statement, which means that the net profit for the period has been adjusted for the effects of transactions of a non-monetary nature, for any deferral or provision for previous or future years'

operating receipts or payments, and for any elements of revenue or cost related to the cash flows deriving from investment or financial activity.

- A statement of changes in consolidated equity from 1 January 2011 to 31 December 2012.

- 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
- **Panariagroup Immobiliare S.r.l.**, with head office in Finale Emilia, Italy and share capital of Euro 10,000 paid-in

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

Panariagroup Immobiliare S.r.l. was set up in 2012.

Furthermore, during the year the Group participated in the set up of a Joint Venture Company (JVC) in Ahmedabad in the Indian state of Gujarat. This company is 50% held by Panariagroup and 50% by Asian Granito India Ltd, a leading manufacturer in the Indian market.

2) ACCOUNTING PRINCIPLES

Consolidation methods

The consolidated financial statements for the year ended 31 December 2012 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.

Jointly controlled entities
These are entities over which the Group has contractually agreed sharing of control, or where there are contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.
Equity investments in jointly controlled entities are accounted for under the equity method. As described in the previous paragraph, at 31 December 2012 the Group had a holding in a jointly controlled entity. This investment is stated in the consolidated financial statements for the year ended 31 December 2012 at historical cost, in consideration of the fact that its operations substantially commenced in the last quarter of the year and, thus, at 31 December 2012 it was not significant. The Group will start to account for this investment in the consolidated financial statements under the equity method as from the forthcoming financial year.

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

Accounting policies

General principles

The financial statements have been prepared on a 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 acquired, 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, but 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 repayable on demand and other highly liquid short-term financial investments that can rapidly be converted into cash and which are not subject to a significant risk of changes in value.

Derivatives

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

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

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

Provisions

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

Post-employment benefits

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

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

Trade payables

Trade payables are booked at their face value.

Financial liabilities and equity instruments

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

Equity instruments

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

Bank loans

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

Treasury shares

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

Revenue recognition

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

Foreign currency transactions

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

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

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

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

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

	31/12/2012	31/12/2011
Average exchange rate for the period	1.2848	1.3920
Current exchange rate at the balance sheet date	1.3194	1.2939

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. In the event that future business and market scenarios differ from those assumed when preparing the forecasts, the value of goodwill could be subject to writedown, or a writedown that differs from that already recorded.

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 RELEVANT FOR THE GROUP

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

- On 7 October 2010, the IASB published a number of amendments to IFRS 7 – Financial Instruments: Disclosures. The amendments were issued with the intention of enhancing disclosures about transfers (derecognition) of financial assets. In particular, the amendments require greater transparency as to risk exposure in the event of transactions, whereby a financial asset has been transferred, but the transferor retains some form of continuing involvement in the asset. The amendments also require additional disclosures to be made in the event that a disproportionate amount of such transactions is carried out towards the end of an accounting period. The adoption of this amendment has had no impact on the financial statement disclosures;

- On 20 December 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which requires an entity to determine deferred tax on investment property measured at fair value based on the manner in which the carrying amount of the underlying asset will be recovered (i.e. through continuing use or through sale). Specifically, the amendment establishes a rebuttable presumption that the carrying amount of an investment property measured at fair value in accordance with IAS 40 will be recovered through sale and that determination of deferred tax, in jurisdictions

in which tax rates are different, will reflect the rate relating to the sale. The adoption of this amendment has had no impact on the determination of deferred tax at 31 December 2012.

ACCOUNTING STANDARDS AND AMENDMENTS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED EARLY BY THE COMPANY

- On 12 May 2011, the IASB issued *IFRS 10 - Consolidated Financial Statements* which will replace *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 main changes introduced by the new standard are the following:
    - In accordance with IFRS 10 there is a sole basic principle for the consolidation of all types of entities and that principle is based on control. This change removes any perceived inconsistency between the previous IAS 27 (based on control) and SIC 12 (based on the transfer of risks and benefits);
    - A definition of control has been introduced that is more robust than in the past, based on three elements: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; (c) the ability to use power over the investee to affect the amount of the investor's returns;
    - *IFRS 10* requires that an investor, in order to determine whether it controls an investee, should focus on the activities that significantly affect the investee's returns;
    - *IFRS 10* requires that, in the determination of the existence of control, consideration should be made only of substantial rights, that is, those that are exercisable in practice when significant decisions need to be taken with regard to the investee;
    - *IFRS 10* provides practical guidance to facilitate the determination of the existence of control in complex situations, such as de facto control, potential voting rights, situations in which it needs to be determined whether the party with decision-making rights acts as principal or as an agent of other parties, etc.
    - In general terms, the application of *IFRS 10* requires a significant degree of judgement on a certain number of aspects.
    - The principle is applicable retrospectively from 1 January 2014.

- 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, without prejudice to the criteria for the determination of the existence of joint control, outlines the accounting by entities that jointly control an arrangement based on the rights and obligations arising from agreements rather than on their legal form and provides that the sole method for accounting for equity investments in jointly controlled entities in consolidated financial statements is the equity method. According to IFRS 11, the existence of a separate vehicle is not a sufficient condition to qualify a joint arrangement as a joint venture. The new principle is applicable retrospectively from 1 January 2014. 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. The adoption of this standard will not have any effect on what has been presented by the Company in its balance sheet at 31 December 2012.

- On 12 May 2011, the IASB issued *IFRS 12 - Disclosure of interests in other entities,* which is a new and complete standard on additional disclosures to be provided in consolidated financial statements for all types of equity investments, including subsidiaries, joint arrangements, associates, special purpose entities and other non consolidated vehicles. The standard is applicable retrospectively from 1 January 2014.

- On 12 May 2011, the IASB issued *IFRS 13 - fair value measurement*, which explains how fair value has to be determined for financial statement purposes and it applies to all the standards that require or permit measurement at fair value or fair value disclosures, with some limited exceptions. Furthermore, the standard requires disclosure of fair value measurement (fair value hierarchy) that is more extensive than that currently required by IFRS 7. This amendment is applicable on a forward-looking basis from 1 January 2013.

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

- On 16 June 2011, the IASB issued an amendment to *IAS 1 - Presentation of financial statements*, which requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of 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 the recognition of actuarial gains and losses under the corridor method, requiring all actuarial gains and losses to be recognised in the statement of comprehensive income and the entire net amount of the defined benefit provision (net of the plan's service cost) to be recorded in the consolidated balance sheet. Furthermore, the amendment requires changes between one period and the next in the defined benefit provision and in the plan's service costs to be split into three components: the cost component related to employee service in the financial year has to be recognised in the income statement as “service costs”; net interest calculated by applying an appropriate discount rate to the balance of the defined benefit provision, net of assets, as at the beginning of the financial year, has to be recognised in the income statement as such; actuarial gains and losses arising from the remeasurement of assets and liabilities are to recognised in the statement of comprehensive income. Furthermore, the return on assets included in net interest is calculated on the basis of the discount rate used for liabilities and no longer on the expected return. 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. The effect of the application of these changes can be

reasonably estimated to be a decrease in equity of Euro 516 thousand, gross of the related tax effect.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

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

- *IFRS 9 – Financial instruments*;
- *IAS 1 Presentation of financial statements – Comparative information*: this clarifies that, if additional comparative information is provided, this has to be presented in accordance with IAS/IFRS. Moreover, it clarifies that, if an entity changes an accounting policy or makes a retrospective restatement or reclassification, the entity is required to present an opening statement of financial position for the comparative period ("third balance sheet"), whereas the explanatory notes are not required to provide comparative disclosures, not even for the "third balance sheet", apart for the components affected.
- *IAS 16 Property, plant and machinery – Classification of servicing equipment*: this clarifies that servicing equipment has to classified within property, plant and equipment if used for more than one financial year, or, otherwise, in inventory.
- *IAS 32 Financial instruments: presentation* - Tax effect of a distribution to holders of equity instruments and costs of equity instrument transactions: this clarifies that direct taxation relating to the foregoing should be accounted for in accordance with IAS 12.
- *IAS 34 Interim financial reporting* – Total assets for a particular reportable segment: this clarifies that total assets need to be disclosed only when the amount is regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

The effective date for the proposed amendments is foreseen for annual periods beginning on or after 1 January 2013, with early application permitted.

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 maturities of financial liability contracts.

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

As at 31 December 2012, this is composed of the following:

	31/12/2012	31/12/2011
Raw, ancillary and consumable materials	12,475	12,204
Work in progress	1,686	2,003
Finished products	126,869	125,495
Buildings held for sale	3,561	2,432
	144,591	**142,134**

The overall value of inventories has slightly increased (+1.7%) compared with the start of the year.

Inventories are shown net of a provision for obsolescence of Euro 12,077 thousand at 31 December 2012 (Euro 13,107 thousand at 31 December 2011), based on an analysis to estimate the timing of sale and recoverable value of stocks according to historical experience and the market prospects of the various types of goods. The decrease in the provision of some Euro 1 million compared to the previous year is the consequence of the effectiveness of actions taken in the year to dispose of slow moving inventories.

Inventories include Euro 3,561 thousand of buildings held for sale (mainly apartments), net of an impairment charge of Euro 500 thousand, based on the estimated market value of the assets at the end of the year carried out by an independent professional.

1.b. Trade receivables

Trade receivables consist of the following:

	31/12/2012	31/12/2011
Trade receivables	77,573	88,190
Provision for bad and doubtful accounts	(5,525)	(5,193)
	72,048	**82,997**

Gross trade receivables are down by 12% compared to 31 December 2011, with this being proportionally greater than the reduction in revenue. This change is mainly attributable to the significant drop in turnover recorded in the Italian and Portuguese markets, which are characterised by very long collection times.

"Trade receivables" include around Euro 5.1 million in amounts over 120 days past due (corresponding to about 6.5% of total receivables), for which there is a provision for bad and doubtful accounts of Euro 5.5 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 2012 a total of around Euro 0,7 million in amounts due from customers were guaranteed by "preliminary agreements" for the sale of apartments (around Euro 0.9 million at 31 December 2011).

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

1.c. Due from tax authorities

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

	31/12/2012	31/12/2011
VAT receivable	7,445	1,298
Advance tax payments	765	1,690
Other amounts due from tax authorities	2,307	590
	10,518	**3,578**

The Group's VAT position is normally in credit, mainly because of the high proportion of exports. The significant increase compared to 31 December 2011 is mainly attributable to Gres Panaria Portugal; a considerable drop in turnover in the domestic market (and a consequent fall in VAT payable) and a significant rise in VAT on energy purchases (from 6% to 23%) are the two factors that have determined the formation of a VAT receivable by the Portuguese company.
It should be noted that in January a request was made for a refund, the terms of which, by law, are 60 days.

"VAT receivable" also includes Euro 203 thousand for which a refund has been requested in relation to VAT that was not deducted on motor vehicles in years 2003 to 2006, as now permitted under Decree 258/06.

"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.

“Other tax receivables” have increased by Euro 1,717 thousand compared to 2011. This change is due to a request made for an IRAP refund relating to personnel costs not deducted for IRES purposes in the years from 2007 to 2011; the request was made on the basis of legislative decree no. 201/2011 (so-called “Save Italy decree”).

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:

	31/12/2012	31/12/2011
Advances to social security institutions	789	349
Advances to suppliers	360	397
Rebates from suppliers and credit notes to be received	304	245
Receivables due from employees and third parties	643	260
IRB – Current portion	641	654
Grants to be received	-	192
Receivables due from insurance companies	1,924	-
Other	356	208
Total other current receivables	**5,017**	**2,305**
- prepaid rents	407	558
- accrued and prepaid insurance premiums	196	156
- other accrued income and prepaid expenses	542	492
Total current accrued income and prepaid expenses	**1,145**	**1,206**
	6,162	**3,511**

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.

“Receivables due from insurance companies” consist of the residual portion of insurance payouts relating to the earthquake, paid out as at 31 December 2012, but not yet received at that date; 90% of this amount was received in January 2013.

The prepaid rents of Euro 407 thousand at 31 December 2012 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:

	31/12/2012	31/12/2011
Bank and post office deposits	4,424	3,055
Cheques	9	-
Cash and equivalents on hand	126	46
	4,559	**3,101**

The changes in financial position in 2012, compared with 2011, are analysed in the consolidated cash flow statement shown previously.

NON-CURRENT ASSETS

2.a. Goodwill

“Goodwill” of 8,139 thousand relates to goodwill recognised on the acquisition of Gres Panaria Portugal and Montanari Francesco S.r.l., net of impairment.

In particular, with respect to Gres Panaria Portugal, the value of goodwill at 31 December 2012 is Euro 7,789 thousand and relates to:

- Euro 4,235 thousand of excess price paid for the acquisition of Maronagres Comercio e Industria Ceramica S.A., net of the amortisation charged prior to the IFRS transition date;
- Euro 7,854 thousand of excess price paid for the acquisition of Novagres Industria de Ceramica S.A. over 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 above amounts are stated net of impairment recorded at 31 December 2012 of Euro 4,300 thousand based on the outcome of impairment testing performed at the year end with reference to the Cash Generating Unit consisting of the Portuguese company resulting from the merger of Maronagres Comercio e Industria Ceramica SA and Novagres Industria de Ceramica S.A commented upon below.

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 value of goodwill relating to Montanari Francesco S.r.l. at 31 December 2012 is Euro 350 thousand; this amount was generated as follows:

- Euro 900 thousand relates to the excess price paid for the acquisition of Montanari Francesco S.r.l. over 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 above amount was then reduced by writedown for impairment totalling Euro 550 thousand, of which Euro 200 thousand was recorded in 2009 and Euro 350 thousand in 2012, as a result of impairment testing.

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.

- With reference to the acquisition of the quotas of Montanari Francesco S.r.l., it should be noted that the bank guarantee provided by the seller as security for the usual contractual warranties expired in 2012.

Impairment Testing

As stated earlier in the section on Accounting Principles, as required by IAS 36, at least annually, even in the absence of indicators of impairment, but always whenever critical signs arise, the Group performs impairment tests to verify the recoverability of the goodwill recorded in the consolidated financial statements. 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.

As part of the 2012 financial statement closure process, impairment tests were performed as required by IAS 36, in particular, the Company identified the Cash Generating Units (“CGU”) that represent the smallest identifiable grouping capable of independently generating cash flows; these CGUs correspond to the business units that make up the Group.

The CGUs are consistent with the units identified for the previous financial year and correspond to operating segments as per IFRS 8. Furthermore, it should be noted that the business units correspond to individual companies, as shown by the table.

The Company tested the recoverability of the value of net capital employed recorded in the Group's consolidated financial statements and attributed to each CGU, to which were added allocations made at consolidation level.
With respect to testing for the Panariagroup S.p.A. CGU, net capital employed was considered net of the carrying value of the equity investments.

The impairment test was performed assuming the value in use of each of these to be their recoverable value, in consideration of the fact that it is not possible to reliably establish their fair value net of selling costs. Value in use was determined as the present value of estimated future cash flow to be generated from the continuing use of the assets pertaining to the CGU, being the sum of cash flow expected during the period of the plan and the terminal value attributable thereto (enterprise value).

For the purposes of the verification of the recoverability of the amounts recorded, the enterprise value was compared against the value of net capital employed recorded in the Group's consolidated financial statements (sum of the book value of equity and net financial indebtedness), to which were added the allocations made at consolidation level. The amounts, by individual CGU, subjected to testing for recoverability are as follows (in thousands of Euro):

	Net capital employed	***Goodwill - Allocation of consolidated financial statements***	***Equity investments***	**Total**
Panariagroup S.p.A.	199,353	-	(77,531)	121,822
Gres Panaria Portugal	50,163	18,708	-	68,871
Panariagroup USA and subsidiaries	51,033	(54)	-	50,979
Montanari Francesco S.r.l.	329	700	-	1,029

The value in use of each CGU was estimated by applying the UDCF (Unlevered Discounted Cash Flow) method, which considered the cash flows included in the 2013-2017 business plan approved by the Board of Directors of the Parent Company on 22 March 2013. A terminal value was calculated at the end of the forecast period represented by a perpetuity. For the determination of the perpetuity, use was made of operating income net of taxation (Net operating profit Less Adjusted Tax - NOPLAT) of the last year of the business plan as management estimates this to be a long term "normalised" flow.

The growth rate used for the determination of the terminal value was prudently taken to be zero, in line with the assumption made for the tests performed in prior years.
The discount rate, or WACC, used to discount expected cash flows from all the CGUs subjected to testing was 8.3% (rate used in 2011 was 8.9%). The Company determined the discount rate by weighting the risks associated with the principal markets in which the Company operates on the basis of the turnover achieved by each of these.

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 the only suitable parameter for this analysis, as it conditions the value in use of the cash generating units.

The use of positive values for the g rate would, in fact, have determined better results than the baseline scenario considered for the testing.

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. To this end, it should be noted that, also in consideration of a continuation of a situation of scarce dynamism in the trend of demand in the ceramic industry in the main European markets, which represent a significant portion of the Group's turnover, the directors have prepared a business plan for the years from 2013 to 2017 with reference, in respect of forecast turnover for the period covered by the business plan, to trends defined by the most recent studies of the outlook for the industry published by “Confindustria Ceramica” and by “Cresme”, as well as to the January 2013 country report by the Economist Intelligence Unit in respect of forecasts of inflation dynamics in the main countries in which the Group operates and in the timescale of reference; furthermore, no assumption was made for any additional efficiency of the current productive and organisational structure of the Group. Lastly, as mentioned previously, the tests were carried out considering a zero rate of further growth at the end of the explicit forecast period.

From the testing performed, as previously indicated, impairment losses arose for the CGU consisting of Gres Panaria Portugal and Montanari.

Set out below are comments on the results of the testing for each CGU.

Panariagroup Industrie Ceramiche S.p.A.

On the basis of the above parameters, the enterprise value of Panaria S.p.A. is some Euro 145 million, against the company's net capital employed as per the consolidated financial statements, net of the carrying value of equity investments, of 121.8 million.

Gres Panaria Portugal S.A.

On the basis of the above parameters, the enterprise value of Gres Panaria Portugal is Euro 64.6 million, against the company's net capital employed as per the consolidated financial statements, inclusive of the allocation of consolidation differences, of 68.9 million. As a result of these findings, a goodwill impairment was recorded in the consolidated financial statements for the year ended 31 December 2012 of Euro 4.3 million.

Panariagroup USA and subsidiaries

On the basis of the above parameters, the enterprise value of Panariagroup USA is USD 79.6 million, against the company's net capital employed as per the consolidated financial statements of 67.3 million.

Montanari Francesco S.r.l.

On the basis of the above parameters, the enterprise value of “Montanari Francesco S.r.l.” is some Euro 697 thousand lower than net capital employed as stated in the consolidated financial statements, inclusive of allocations made on consolidation of some Euro 1,029 thousand. As a result of these findings, a goodwill impairment was recorded in the consolidated financial statements for the year ended 31 December 2012 of Euro 350 thousand.

Impairment - Sensitivity Analysis

The following shows how the enterprise values of the CGUs change with variations in the WACC.

Amounts in millions of Euro	***WACC - 0.5%***	***WACC used***	***WACC +0.5%***
Panaria S.p.A.	*153.9*	*145*	*137.1*
Gres Panaria	*68.7*	*64.6*	*60.9*
Panariagroup USA (*)	*84.3*	*79.6*	*75.4*
Montanari	*0.7*	*0.7*	*0.7*

(*) Amounts in millions of USD

Furthermore, it should be noted that the enterprise value almost corresponds to net working capital inclusive of allocations made on consolidation (prior to writedowns recorded) using the WACC rates shown in the following table:

	WACC
Panaria S.p.A.	*10.0%*
Gres Panaria	*8.3%*
Panariagroup USA	*10.0%*
Montanari	*8.3%*

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 2012. 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.

The directors made these considerations based on the following:

- 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;

Furthermore, in order to support these considerations, as suggested by the document prepared by the Organismo Italiano di Valutazione ("OIV") in relation to "Impairment testing in the context of financial and real crisis" when the market capitalisation is lower than the book value of equity, the directors have performed further so-called second level impairment testing relating to the entire Group.

To this end, the Company has considered the present value of future cash flows expected to be generated from the continuing use of the assets of all of the CGUs and from the terminal value attributable thereto. From this value (enterprise value), consolidated net financial indebtedness has been subtracted to arrive at the determination of the so-called equity value. In order to verify the recoverability of recorded values, the equity value was compared to the consolidated equity of Panariagroup.

The parameters assumed for this test were the same as those stated previously (2013 - 2017 business plan approved by the Parent Company's Board of Directors on 22 March 2013, WACC equal to 8.3%, growth rate of the terminal value of 0%) and the test has confirmed the recoverability of the amounts recorded in the consolidated financial statements.

2.b. Intangible assets

"Intangible assets" at 31 December 2012 amount to Euro 2,425 thousand, which is lower than the figure of Euro 2,697 thousand reported at 31 December 2011.

The changes during the period are reported in an attachment.

2.c. Property, plant and equipment

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

	31/12/2012	31/12/2011
Land and buildings	25,724	26,569
Plant and machinery	50,640	50,580
Equipment and other assets	13,976	13,563
Construction in progress	1,285	1,509
	91,625	**92,221**

Changes during the year can be summarised as follows:

Balance at 1/1/2012	**92,221**
Additions	16,887
Retirements	(212)
Depreciation charge	(16,739)
Retirements due to earthquake	(300)
Exchange differences for foreign subsidiaries	(232)
Balance at 31/12/2011	**91,625**

The changes during the period are reported in an attachment.

Expenditure on property, plant and equipment during the period of some Euro 16.9 million includes Euro 6.9 million for implementations at the Group's Italian factories, Euro 2.3 million in expenditure on the Portuguese factories and Euro 7.7 million in expenditure on the US factory.

Capital expenditure incurred in 2012 includes the implementation of the second porcelain grès line at the Lawrenceburg plant; the new structure of the plant ensures greater production capacity and lower unit costs, enhancing the Group's competitiveness in the United States, a market where an excellent growth trend is being achieved and for which the prospects for the medium-long term are particularly interesting.

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

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

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

2.d. Financial assets

This caption comprises:

	31/12/2012	31/12/2011
Industrial Revenue Bond	9,623	10,467
Investment in Indian JV	356	-
Other	4	6
	9,983	**10,473**

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 to 31 December 2011 is due to the repayment of the annual instalment of Euro 655 thousand (USD 850 thousand) and to an exchange loss of Euro 189 thousand arising from translation at the year end exchange rate.

2.e Deferred tax assets

The net deferred tax balance at 31 December 2012 was an asset, as was the case in the prior year:

	31/12/2012	31/12/2011
Deferred tax liabilities:		
- revaluation of acquired company buildings to fair value	(3,023)	(3,298)
- valuation of severance indemnities according to IFRS	(247)	(253)
- valuation of agents' termination indemnities according to IFRS	(541)	(542)
- valuation of inventories	(2,408)	(2,653)
- lease-back	(298)	(322)
- exchange differences on valuation	(244)	(613)
- accelerated depreciation	(127)	(127)
- other	(47)	(76)
Total deferred tax liabilities	**(6,935)**	**(7,884)**
Deferred tax assets:		
- taxed provisions	5,018	4,563
- tax loss carryforwards	11,429	773
- release of equity investments	-	3,703
- other	49	42
Total deferred tax assets	**16,496**	**9,081**
Deferred tax liabilities	**9,561**	**1,197**

Deferred taxes provided against the "revaluation of acquired company buildings to fair value" (Euro 3,023 thousand) refer to the recognition of acquired company assets at fair value in the consolidated financial statements, net of accumulated depreciation on the acquisition date.

The deferred tax asset on “tax loss carryforwards” has gone from Euro 0.8 million to 11.4 million; Euro 7.2 million of this relates to tax losses pertaining to the subsidiary Florida Tile Inc., Euro 3.7 million relates to Panariagroup Industrie Ceramiche and 0.2 million to Gres Panaria Portugal, with the latter relating to tax losses reported in 2012.

With respect to the US company, in 2012 Company management revised the business plan upwards (inclusive of the other companies pertaining to the American business unit, since they are part of the tax group), in light of the marked improvement in results achieved in recent years and which in 2012 produced substantial pre-tax income, as well as the completion of restructuring of the direct sales network and the penetration of new marketing channels, plus the changing macro-economic conditions and prospects in the North American market which are decidedly more rosy in comparison to prior years, as confirmed by the trend in the business unit's turnover in the initial months of 2013.
On the basis of these plans, formulated on a prudent basis (conservative growth assumptions linked to the most recent forecasts published by “Confindustria Ceramica” and by “Cresme” and without any assumption made for any additional efficiency of the current productive and organisational structure), Group management has deemed it correct to recognise a deferred tax asset on all of the tax loss carryforwards.

The tax loss recorded in 2012 by the Parent Company is mostly due to the different treatment for tax purposes of insurance payouts received in relation to the earthquake in consideration of the tax exemption for these payouts conceded by legislation issued to aid those hit by the earthquake and expenses incurred, which are deductible.

Also, with respect to the Parent Company and Gres Panaria Portugal, the business plans prepared and approved by Group management, show future results that will allow the recovery of the deferred tax assets recorded.
The recoverability of the deferred tax assets is thus subject to the ability of the aforementioned companies to produce, in the medium term, positive results that will allow the recovery of the deferred tax asset, in line with forecasts included in the business plans approved by the Group's directors on 22 March 2013.

At 31 December 2012, the deferred tax asset relating to the “release of equity investments” done in 2011 amounts to zero.
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. What this has entailed is that Panariagroup, on the payment of a substitute tax of 16% of the amount freed up (payments expected to be made from 2013 onwards), has obtained as a benefit the possibility to amortise this amount in its tax return over the following 10 years. Panariagroup had booked this transaction in accordance with one of the three alternatives provided by the OIC (Italian Accounting Body), namely the "Substitute tax with recognition of deferred tax assets" method.
This method consisted of accounting for the substitute tax payable (16% of the amount released) and the recognition of a deferred tax asset equal to the tax benefit deriving from amortisation deductible over the following 10 financial years, with the difference between these two amounts being taken to the income statement.

In 2012, with the approval of law no. 228 of 24 December 2012, an amendment was made to the legislation that deferred the impact of the realignment over five years, giving the possibility to amortise the excess tax value allocated to goodwill only as from 2017, rather than from 2012 as originally foreseen.
This significant and penalising change in the conditions of the transaction has led to a decision by Company management not to go ahead with realignment. The change was possible since the payment of the first instalment of substitute tax had not yet been made as it was envisaged to take place in June 2013.
As a result of this decision, the deferred tax asset of Euro 3.7 million was annulled and, at the same time, the payable for substitute tax originally recorded at 2.0 million was eliminated. Recognition was also given in the income statement (“Income taxes” line) to a charge of Euro 1.7 million, corresponding to the difference between the foregoing asset and foregoing liability.

2.f. Other non-current assets

This line item comprises:

	31/12/2012	31/12/2011
Guarantee deposits for utilities	167	166
Loans due from third parties	200	-
Other	74	95

Total other non-current receivables	**441**	**261**
Total non-current accrued income and prepaid expenses	**-**	**-**
	441	**261**

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:

	31/12/2012	31/12/2011
Current account overdrafts	12,843	15,031
Export advances	7,002	13,710
Long-term loans	16,780	19,797
Leases	642	658
Other loans	490	773
	37,757	**49,969**

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

The Group's total borrowing facilities granted by banks at 31 December 2012 amounted to Euro 125.0 million, of which Euro 19.8 million had been drawn down at that date.

"Long-term loans" include the current portion of nine unsecured loans obtained by the Parent Company between 2006 and 2012. 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 642 thousand refer almost entirely to the current portion of the lease connected with the IRB operation.

"Other loans" of Euro 490 thousand at 31 December 2012 relate to a short-term loan obtained by Gres Panaria Portugal from a leading Italian bank.

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:

	31/12/2012	31/12/2011
Trade payables	59,772	62,306

Trade payables refer to amounts due to suppliers for the purchase of goods and services used in the Group's normal business activities. The decrease in the year is in line with the change in value of production (net of the impact of the earthquake).

3.c. Due to tax authorities

This caption comprises:

	31/12/2012	31/12/2011
Withholding tax	2,466	2,076
Income taxes	226	97
Other	157	151
	2,849	**2,324**

3.d. Other current liabilities

At 31 December 2012, this caption comprises:

	31/12/2012	31/12/2011
Due to social security institutions	3,369	3,584
Due to employees	5,923	5,729
Due to customers	4,076	5,056
Due to agents	7,658	9,055
Financial derivatives – negative fair value	222	140
Other	572	385
Total current payables	**21,820**	**23,949**
Deferred income from capital grants	59	76
Accrued interest expense	128	7
Deferred income from earthquake insurance payouts	486	-
Other	117	150
Total current accrued expenses and deferred income	**790**	**233**
	22,610	**24,182**

"Deferred income from earthquake insurance payouts" consists of a portion of insurance payouts relating to extraordinary maintenance as a consequence of the earthquake and which has been capitalised. This portion of the payout is thus being taken to income over the useful lives of the assets to which they relate.

4. NON-CURRENT LIABILITIES

4.a. Employee severance indemnities

The liability for employee severance indemnities is as follows:

	31/12/2012	31/12/2011
Employee severance indemnities	**5,843**	**6,175**

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:

31/12/2012: IBoxx Eurozone Corporate A discount rate = 2.40 %
31/12/2011: IBoxx Eurozone Corporate AA discount rate = 4.75 %

For 2012 the iBoxx Eurozone Corporate A Index was taken as a point of reference (in 2011 the iBoxx Eurozone Corporate AA Index was used; the impact of the change in the discount rate is given below).

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):

	31/12/2012	31/12/2011
Present value of the obligation	6,359	5,742
Unrecognised actuarial gains (losses)	(516)	433
Book value of employee severance indemnities	**5,843**	**6,175**

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

As previously indicated, in 2012 the iBoxx Eurozone Corporate A Index was taken as a point of reference, whereas in 2011 the iBoxx Eurozone Corporate AA Index was used. If the same reference index had been used, with a discount rate of 2.05%, the present value of the obligation would have been Euro 6,685 thousand instead of Euro 6,359 thousand.

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

Balance at 31/12/2011	**6,175**
Charge to the income statement	238
Portion paid out during the year	(570)
Employee severance indemnities at 31/12/2012	**5,843**

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

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)". The amendment is effective retrospectively from the period beginning on or after 1 January 2013; the effect of the application of these changes can be reasonably estimated to be a decrease in equity of Euro 516 thousand, gross of the related tax effect.

4.b. Deferred tax liabilities

The balance at 31 December 2012 is a receivable. Reference should be made to the note on deferred tax assets (2.e) for further details.

4.c. Provisions for risks and charges

Provisions for risks and charges are made up of:

	31/12/2012	31/12/2011
Provision for agents' termination indemnities	2,210	2,788
Provision for earthquake costs	2,200	-
Other provisions	1,328	790
	5,738	**3,578**

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 2011	5.57%
31 December 2012	5.59%

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

The “Provision for earthquake costs” relates to costs for the restoration of buildings and plant expected to be incurred as from 2013 and they mainly relate to the restructuring of the office building in Finale Emilia, which is not fit for use due to damage caused by the earthquake.

“Other provisions” include provisions for potential liabilities in connection with tax inspections performed at Gres Panaria Portugal in 2011 and at Panariagroup Industrie Ceramiche S.p.A. in 2012 and reflect the best estimate of the costs to be incurred based on an analysis of the findings issued and the degree of probability of the case for the defence, as prepared by the directors with the support of the Group's tax advisors, being upheld.

The Parent Company's tax years from 2008 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 2012.

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:

	31/12/2012	31/12/2011
Long-term loans	54,483	36,348
Assisted loans	5,106	2,312
IRB finance lease	9,623	10,467
	69,212	**49,127**

"Long-term loans" relate to the portion beyond 12 months of medium-long term loans taken out mainly by the Parent Company at floating rates tied to Euribor.

In 2012 a new mortgage loan was taken out of Euro 15 million as well as a medium term assisted loan of Euro 4.1 million granted as aid to entities hit by the earthquake for the payment of taxation and contributions that was temporarily suspended as from May 2012.

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

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

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	**16,780**	**642**	**(642)**	**16,780**
2013	24,362	642	(642)	24,362
2014	18,383	642	(642)	18,383
2015	8,509	642	(642)	8,509
2016	6,651	642	(642)	6,651
2017	1,570	642	(642)	1,570
2018	66	642	(642)	66
2019	48	642	(642)	48
2020	-	642	(642)	-
2021	-	642	(642)	-
Beyond 10 years	-	3,845	(3,845)	-
Long-term	**59,589**	**9,623**	**(9,623)**	**59,589**
Financial payables	**76,369**	**10,265**	**(10,265)**	**76,369**

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 2012, this caption comprises:

	31/12/2012	31/12/2011
Due to suppliers beyond 12 months	1,972	1,465
Flat-rate taxes beyond 12 months	-	1,996
Accrued rent - Lawrenceburg	434	398
Other	169	186
	2,575	**4,045**

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

“Flat-rate taxes beyond 12 months” at 31 December 2011 related to taxation on the release of equity investments commented upon in the section on deferred tax assets and is no longer payable as a result of having waived this option.

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:

	31/12/2012	31/12/2011
Share capital	22,678	22,678
Share premium reserve	60,783	60,783
Revaluation reserves	4,493	4,493
Legal reserve	3,581	3,472
Translation reserve	(754)	395
Other reserves and retained earnings	61,323	59,881
Net profit (loss) for the year	1,591	1,551
	153,695	**153,253**

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

To date, no stock option plans have been granted.

The main items making up equity are discussed below.

Share capital

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

Share premium reserve

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

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

Revaluation reserves

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

Legal reserve

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

Translation reserve

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

Other reserves and retained earnings

The other equity reserves are made up as follows:

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

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

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

Treasury shares

At 31 December 2012 there are 432,234 treasury shares held in portfolio at an average carrying value of Euro 3.73 each, for a total of Euro 1,614 thousand. There have been no changes since the end of the previous year.

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

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

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

TRANSACTIONS INVOLVING FINANCIAL DERIVATIVES

The following financial derivative contracts taken out with leading banks were outstanding as of 31 December 2012:

- 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.
- an interest rate swap with a notional underlying principal of Euro 3,250 thousand to hedge interest rates on outstanding loans obtained during 2012.
- an interest rate swap with a notional underlying principal of Euro 7,500 thousand to hedge interest rates on outstanding loans obtained during 2012.

These contracts are shown at fair value under “Other current liabilities” for a total of Euro 222 thousand. Adjusting these instruments to fair value at 31 December 2012 involved booking a loss of Euro 82 thousand to the income statement for 2012.

GUARANTEES

At 31 December 2012 no guarantees have been given in favour of entities outside of the scope of consolidation.

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

The loan contracts do not contain any covenants.

6) COMMENTS ON THE PRINCIPAL INCOME STATEMENT CAPTIONS

6. REVENUES

6.a. Revenues from sales and services

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

	31/12/2012	*31/12/2011*
Italy	72,484	85,743
Abroad	211,556	210,272
(Customer rebates)	(3,262)	(4,618)
	280,778	**291,397**

Revenues from sales have decreased by 3.7%, falling from Euro 291,397 thousand at 31 December 2011 to Euro 280,778 thousand at 31 December 2012 (-Euro 10.6 million).

More details can be found in the directors' report.

6.b. Other revenues

"Other revenues" are made up as follows:

	31/12/2012	**31/12/2011**	**Change**
Expense recoveries (displays, transport)	4,009	2,958	1,051
Gains on the sale of property	171	366	(195)
Out-of-period income	743	468	275
Compensation for damages	19	110	(91)
Grants	140	823	(683)
Energy income	791	686	105
Capitalisation of own work	176	-	176
Other	924	629	295
	6,973	**6,040**	**933**
% of Value of production	***2.8%***	***2.0%***	**+0.8%**

"Expense recoveries" mainly include income from the recovery of costs of transport and samples recharged by Florida Tile Inc. to its customers and which have increased in the year due to the aforementioned growth in turnover of this company.

"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.

“Capitalisation of own work” relates to the use of self produced photovoltaic tiles as part of an internal project to improve the energy efficiency of one of the Group's plants.

7. COST OF PRODUCTION

7.a. Raw materials

"Raw materials" are made up as follows:

	31/12/2012	% of V.o.P.	31/12/2011	% of V.o.P
Raw materials	39,098	13.1%	41,781	13.8%
Finished products	26,943	9.0%	27,613	9.1%
Packaging	9,802	3.3%	10,485	3.5%
Price lists/Catalogues	1,100	0.4%	1,274	0.4%
Other	335	0.1%	287	0.1%
	77,278	**25.9%**	**81,440**	**26.8%**

7.b. Services, leases and rentals

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

	31/12/2012	% of V.O.P.	31/12/2011	% of V.o.P.
Property rental	9,000	3.0%	8,943	2.9%
Rent of other fixed assets	2,155	0.7%	2,520	0.8%
Commissions	14,887	5.0%	16,516	5.4%
Utilities	30,453	10.2%	30,037	9.9%
Commercial expenses and advertising	8,144	2.7%	9,334	3.1%
Sub-contract work	11,587	3.9%	13,604	4.5%
Maintenance	8,345	2.8%	8,968	3.0%
Transportation	16,468	5.5%	14,589	4.8%
Industrial services	5,575	1.9%	5,771	1.9%
Directors' and statutory auditors' fees	1,183	0.4%	1,185	0.4%
Consulting fees	4,049	1.4%	3,768	1.2%
Insurance	1,152	0.4%	1,034	0.3%
Other	6,602	2.2%	6,775	2.2%
	119,600	**40.1%**	**123,044**	**40.5%**

"Property rental" mainly includes:

- rents of Euro 5,313 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 3,377 thousand.

7.c. Personnel costs

Personnel costs have increased from Euro 70,701 thousand in the year ended 31 December 2011 (23.3% of value of production) to Euro 71,647 thousand in the year ended 31 December 2012 (24.0% of value of production).

Personnel costs can be broken down as follows:

	31/12/2012	31/12/2011
Wages and salaries	53,961	53,202
Social security contributions	14,902	14,831
Severance indemnities and other funds	2,220	2,147
Other personnel costs	564	521
	71,647	**70,701**

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

	31/12/2012	31/12/2011
Managers	31	30
Supervisors and white collar workers	651	650
Foremen and blue collar workers	945	968
	1,627	**1,648**

7.d. Other operating expenses

"Other operating expenses" are made up as follows:

	31/12/2012	% of V.o.P.	31/12/2011	% of V.o.P.
Out-of-period expenses	191	0.1%	291	0.1%
Gifts	47	0.0%	73	0.0%
Trade association fees	92	0.0%	97	0.0%
Losses on disposals	268	0.1%	360	0.1%
Indirect taxes	1,012	0.4%	961	0.3%
Office materials	640	0.2%	637	0.2%
Other	696	0.2%	570	0.2%
	2,946	**1.0%**	**2,989**	**1.0%**

8. DEPRECIATION, AMORTISATION AND PROVISIONS

8.a. Depreciation and amortisation

The charge for depreciation and amortisation is in line with 2011, going from Euro 17,621 thousand in the year ended 31 December 2011 to Euro 17,640 thousand in the year ended 31 December 2012.

8.b. Provisions and impairments

"Provisions and impairments" of Euro 6,502 thousand include a provision made for doubtful accounts of Euro 2,302 thousand, a provision made for agents' termination indemnities of Euro 50 thousand, the utilisation of the provision for slow-moving and obsolete goods of Euro 500 thousand and an impairment charge relating to goodwill pertaining to Gres Panaria and Montanari of Euro 4,650 thousand, already commented upon in the section on impairment.

9. FINANCIAL INCOME (EXPENSE)

9.a. Financial income (expense)

	31/12/2012	31/12/2011
Interest on short-term loans	(615)	(512)
Interest expense on medium/long-term loans	(1,630)	(1,637)
Financial expense on severance indemnity liability	(255)	(292)
Fair value losses on derivatives	(82)	-
Other	(1,177)	(1,463)
Total financial expense	**(3,759)**	**(3,904)**
Bank interest income	8	3
Interest on receivables	82	101
Fair value gains on derivatives	-	57
Other	-	84
Total financial income	**90**	**245**
TOTAL FINANCIAL INCOME AND EXPENSE	**(3,669)**	**(3,659)**
% of Value of production	*-1.2%*	*-1.2%*
Exchange losses	(2,102)	(2,374)
Exchange gains	2,078	2,884
TOTAL EXCHANGE GAINS AND LOSSES	**(24)**	**510**
% of Value of production	*-0.0%*	*+0.2%*
Financial losses on discounting	-	-
Financial gains on discounting	(5)	195
DISCOUNTING GAINS (LOSSES)	**(5)**	**195**
% of Value of production	*-0.0%*	*+0.0%*
Total financial income (expense)	**(3,698)**	**(2,954)**
% of Value of production	**-1.2%**	**-1.0%**

"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 2012 financial statements (pre-tax profit) in the event that interest rates or exchange rates fluctuate.

Interest rates

Rate	Higher (Lower) Profits € million
- 2.00%	+1.8
- 1.00%	+0.9
- 0.50%	+0.5
+ 0.50%	-0.5
+ 1.00%	-0.9
+ 2.00%	-1.8

Exchange rates (Eur/USD)

Rate	Higher (Lower) Profits € million
1.20	+1.7
1.30	-0.9
1.40	-3.1
1.50	-5.0

* Hypothesis of a constant interest rate over the entire period

10. INCOME TAXES

10.a Income taxes

Income taxes for the financial year have generated an amount of income of Euro 10,835 thousand.

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) (net of revaluations of investment)	(5,654)
B	Personnel costs	44,886
C	Financial expense (net)	3,170
D	IRAP deductions for tax wedge	17,488

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRES purpose	(5,654)	(1,555)	27.50%
A+B+C+D	Theoretical taxable income for IRAP purpose	24,914	972	3.90%
CF1	THEORETICAL TAX CHARGE - ITALIAN TAXES		(583)	10.31%

THEORETICAL TAX RATE - PORTUGUESE TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	(1,025)	(272)	26.50%
CF2	THEORETICAL TAX CHARGE - PORTUGUESE TAXES		(272)	26.50%

THEORETICAL TAX RATE - US TAXES

			Theoretical tax	Theoretical tax rate
A	Theoretical taxable income for IRC purpose	2,618	1,021	39.00%
CF3	THEORETICAL TAX CHARGE - US TAXES		1,021	39.00%

THEORETICAL TAX RATE - TOTAL

CF1 + CF2 + CF3	THEORETICAL TAX CHARGE - TOTAL	166	-1.80%
	Recognition of deferred tax assets on tax losses USA	(7,200)	77.89%
	Tax exemption for earthquake insurance reimbursements	(2,887)	-11.80%
	No recognition of deferred tax assets for US taxes	(1,021)	-4.17%
	Economic effect of the waiver to freeing up for tax Purposes the portion of equity investments attributable to goodwill	1,707	6.98%
	Tax effect on consolidation adjustments	(126)	1.36%
	IRAP deductibility personnel costs year 2007-2011	(1,729)	42.58%
	Difference	255	-2.76%
	ACTUAL tax charge	(10,835)	117.21%

This income was determined by a series of factors that arose in the year.

The most significant was the recognition of a deferred tax asset of Euro 7,200 thousand in relation to the Panariagroup USA tax group, which includes the subsidiaries Florida Tile and Lea North America. As previously disclosed, in 2012, the companies pertaining to the American business unit achieved substantial pre-tax income and confirmed the upward prior year trend in terms of turnover and profit margins, attributable in part to the completion of the process of restructuring of the direct sales network and the penetration of new marketing channels, as described in more detail in the directors' report. Accordingly, in light of the consistency and continuity of the improvement in results, together with the business plan approved by the directors, as well as the trend in turnover of the business unit in the initial months of 2013, it is believed that it is probable that the tax loss carryforwards will be recovered within the time permitted by US tax law.

Another significant factor is the peculiar tax treatment of the earthquake related expenses and income under Italian law, which permits the full deductibility of costs incurred, whereas it provides for the non-taxation of grants and compensation received; this law is evidently aimed at assisting and aiding those entities that were damaged by the earthquake.

A positive contribution was also made by the new law that permits the deductibility of IRAP on labour costs for the purposes of IRES with a retroactive effect (legislative decree no. 201/2011 - so-called “Save Italy decree”), permitting the recovery of excess taxation paid in the tax years from 2007 to 2011.
As a result of this law, a request has been made for a refund of Euro 1,729 thousand.

The waiver of the possibility to release equity investments (already commented upon in the section on deferred tax assets) had a negative impact, with the recognition of a cost of Euro 1,707 thousand. As already commented upon, in 2012 amendments were made to the law that considerably altered the related financial conditions, rendering the exercise of the option no longer attractive from a financial point of view.

11. IMPACT OF THE EARTHQUAKE ON RESULTS

In May 2012, Emilia Romagna (and particularly the province of Modena) was hit by a severely intense earthquake that caused significant damages to Finale Emilia, the location of one of the Group's production facilities, as well as commercial and administrative offices.

As previously disclosed, in order to ensure a clearer financial statement presentation of the impact on results of the earthquake that hit Emilia Romagna, as from the half-yearly report at 30 June 2012, a number of specific line items have been added to the income statement,
in accordance with the requirements of paragraph 83 of "IAS 1 Presentation of Financial Statements": "*Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance*".

The lines which were added to the income statement for the year ended 31 December 2012 are the following:

	31/12/2012
Income from extraordinary events	8,315
Cost of extraordinary events	(5,871)
Provision for extraordinary events	(2,500)
	(56)

"Income from extraordinary events" relates to the positive impact of income from insurance payouts and the negative impact of goods damaged by the earthquake.

In relation to the insurance payout of Euro 9.7 million, it should be noted that at 31 December 2012 the amount thereof was certain and it had been paid by the insurance company. It had been partially collected in 2012 (Euro 7.8 million) and the remainder was collected in January 2013, except for a portion (of Euro 0.2 million) that will be paid on completion of the restoration work on the buildings.

Part of the insurance payout relating to structural work that was capitalised (Euro 0.5 million) has been deferred, in order to match the income to the useful lives of the related assets.

"Cost of extraordinary events" relates to the works already carried out for the resumption of operations at the plant in Finale Emilia; these included demolition, restoration and safety measures at the site carried out using both internal personnel and external suppliers. This also includes costs related to inventories of materials other than finished products (raw materials, semi-finished products and consumables) that were destroyed by the earthquake.

The "Provision for extraordinary events" of Euro 2.5 million consists of an estimate of the expected costs, based on the programme for completion of the works, for the restoration of the entire Finale Emilia site to the condition it was in prior to the earthquake and mainly relates to the cost of reconstruction of the office block.

The estimated costs to complete do not include improvements that are necessary to adapt the facilities, equipment and machinery to the new anti-seismic parameters introduced for the area and which will be capitalised.

In the same manner, the quantification of the impact of the earthquake does not take account of the "indirect" costs relating to the earthquake, such as the loss of sales and production.

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

Lastly, it should be noted that in 2013 the Group will apply for a grant available under Regional Decree E-R no. 57 of 12/10/2012 to aid those who have sustained damages from the earthquake not covered by insurance (structural improvements to comply with anti-seismic requirements, temporary office rental expense and the cost of dislocation of production, etc.).
As at the date of preparation of these explanatory notes, the Group had not completed the process of quantification of allowable expenses under the aforementioned decree and, accordingly, has not yet submitted its application. In consideration of the foregoing, it has been deemed correct not to recognise any income in 2012.

BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

As required by IAS 33, earnings per share are disclosed at the foot of the income statement: € 0.035 per share at 31 December 2012, the same as the year before.

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.

As already mentioned in the Introduction, the impact on results of the earthquake that struck Emilia Romagna in May 2012 (gross of the related tax effect) has been recorded in specific income statement captions, for a better understanding of the Group's results in accordance with the requirements of "IAS 1 Presentation of Financial Statements".

POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

There have been no transactions/events during the year ended 31 December 2010 that fall under the scope of CONSOB Communication DEM/6064293 of 28 July 2006. As specified in this Communication "atypical and/or unusual transactions mean those transactions which by virtue of their significance/size, nature of the counterparties, purpose of the transaction, method of determining the transfer price and timing (proximity to year end) may give rise to doubts concerning: the fairness/completeness of the information contained in the financial statements, conflicts of interest, the safekeeping of company assets, and the protection of minority shareholders".

RELATED PARTY TRANSACTIONS

Panariagroup's related parties are:

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

INCOME STATEMENT

(in thousands of euro)

REVENUES	Finpanaria	Imm. Gemma	Total
Rental income	4	-	**4**
Services	31	25	**56**
Total revenues	**35**	**25**	**60**

COSTS	Finpanaria	Imm. Gemma	Total
Rental expense	-	5,313	**5,313**
Commission for guarantees given	29	-	**29**
Services	60	-	**60**
Total costs	**89**	**5,313**	**5,402**

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

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

	% of Value of Production	% of total revenues	% of pre-tax profit	% of operating cash flow*
Revenues	0.02%	0.02%	0.65%	0.36%
Costs	1.81%	1.92%	58.43%	32.39%

* before changes in working capital

BALANCE SHEET

(in thousands of euro)

	Finpanaria	Imm. Gemma	Total
Receivables	38	30	68
Payables	-	-	-
Due from (to) tax authorities	-	-	-
Net receivable (payable)	**38**	**30**	**68**

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 2012 to 31 December 2012
- Statement of changes in property, plant and equipment from 1 January 2012 to 31 December 2012
- 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, 22 March 2013

The Chairman of the Board of Directors

EMILIO MUSSINI

EXPLANATORY NOTES - ATTACHMENT 1

- Statement of changes in intangible assets and goodwill from 1 January 2012 to 31 December 2012

Panariagroup - Consolidated financial statements

Statement of changes in intangible assets and goodwill
from 1/1/2012 to 31/12/2012
(in thousands of Euro)

	Concessions, licenses, trademarks	Other intangible assets	TOTAL INTANGIBLE ASSETS	GOODWILL
Balance at 1/1/2012	**2,697**	**-**	**2,697**	**12,789**
Increases, net	653	-	653	-
Net decreases and impairment	-	-	-	(4,650)
Amortisation	(901)	-	(901)	-
Reclassifications	-	-	-	-
Exchange differences on foreign subsidiaries	(24)	-	(24)	-
Balance at 31/12/2012	**2,425**	**-**	**2,425**	**8,139**

EXPLANATORY NOTES - ATTACHMENT 2

- Statement of changes in property, plant and equipment from 1 January 2012 to 31 December 2012

Panariagroup - Consolidated financial statements

Statement of changes in property, plant and equipment
from 1/1/2012 to 31/12/2012
(in thousands of Euro)

	Land and buildings	Plant and Machinery	Equipment and Other Assets	Construction in progress and advances	Total
Balance at 1/1/2012	**26,569**	**50,580**	**13,563**	**1,509**	**92,221**
Increases, net	159	11,442	3,379	1,907	16,887
Net decreases and impairment		(181)	(31)		(212)
Depreciation	(1,047)	(12,406)	(3,286)		(16,739)
Reclassifications	43	1,644	427	(2,114)	-
Decreases for earthquake	-	(300)	-	-	(300)
Exchange differences on foreign subsidiaries		(139)	(76)	(17)	(232)
Balance at 31/12/2012	**25,724**	**50,640**	**13,976**	**1,285**	**91,625**

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.	31/12/2012	31/12/2011
	Securities	1.d	(641)	(654)
A	Cash and cash equvalents	1.e.	(4,559)	(3,101)
	Short-term financial assets		**(5,200)**	**(3,755)**
	Securities	2.d.	(9,622)	(10,467)
	Long-term financial assets		**(9,622)**	**(10,467)**
B	Due to banks		20,335	29,514
	Current portion of long-term loans		16,780	19,797
	Leases		642	658
	Short-term financial indebtedness	3.a.	**37,757**	**49,969**
	Non-current portion of long-term loans		59,589	38,660
	Leases		9,623	10,467
	Long-term financial indebtedness	4.d.	**69,212**	**49,127**
	Net financial indebtedness		**92,147**	**84,874**
A+B	**Net short-term financial indebtedness**		**15,776**	**26,413**

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 2012 financial statements.

For details of the remuneration of the Directors, please refer to the "Report of the Board on the remuneration"

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 2012
Auditing	Deloitte & Touche S.p.A.	Panariagroup S.p.A.	164
	Deloitte & Touche S.p.A.	Florida Tile (*)	75
	Deloitte & Touche s.a.	Gres Panaria Portugal s.a. (*)	38
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
- the effective application

  of the administrative and accounting procedures for the formation of the consolidated financial statements during the period ended 31 December 2012.

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

3.We also certify that:

3.1the consolidated financial statements:

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

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

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

3.2 The 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, 22 March 2013

Managing Directors	Financial Reporting Manager
Paolo Mussini Andrea Mussini Emilio Mussini Giuseppe Mussini Giuliano Pini	Damiano Quarta

PANARIAGROUP

Financial Statement of the companies extra-UE controlled by Panariagroup

PANARIAGROUP USA

CONSOLIDATED BALANCE SHEET

(THOUSANDS OF DOLLARS)

ASSETS	31/12/2012	31/12/2011
CURRENT ASSETS	**63,967**	**61,546**
Inventories	45,690	43,448
Trade Receivables	15,050	13,803
Due from tax authorities	0,049	0,006
Other current assets	1,691	1,861
Cash and cash equivalents	1,487	2,428
NON-CURRENT ASSETS	**52,225**	**37,705**
Goodwill	0,000	0,000
Intangible assets	1,892	2,002
Property, plant and equipment	26,983	20,908
Financial assets	12,767	13,613
Deferred tax assets	10,481	1,056
Other non-current assets	0,102	0,126
TOTAL ASSETS	**116,192**	**99,251**

LIABILITIES	31/12/2012	31/12/2011
CURRENT LIABILITIES	**22,901**	**22,056**
Due to banks and other sources of finance	0,847	1,852
Trade payables	19,645	18,398
Due to tax authorities	0,296	0,149
Other current liabilities	2,113	1,657
NON-CURRENT LIABILITIES	**48,976**	**45,569**
Employee severance indemnities	-	-
Deferred tax liabilities	-	-
Provisions for risks and charges	0,250	0,363
Due to banks and other sources of finance	47,930	44,451
Other non-current liabilities	0,796	0,755
TOTAL LIABILITIES	**71,877**	**67,625**
EQUITY	**44,315**	**31,626**
Share capital	63,020	63,020
Capital Reserves	(31,394)	(30,541)
Net Profit	12,689	(0,853)
TOTAL LIABILITIES AND EQUITY	**116,192**	**99,251**

PANARIAGROUP USA

CONSOLIDATED FINANCIAL STATEMENT

(THOUSANDS OF DOLLARS)

	31/12/2012		31/12/2011	
REVENUES FROM SALES AND SERVICES	**105,398**	**94,6%**	**92,982**	**89,4%**
Change in inventories of finished products	2,288	2,1%	8,076	7,8%
Other revenues	3,678	3,3%	2,917	2,8%
VALUE OF PRODUCTION	**111,364**	**100,0%**	**103,975**	**100,0%**
Raw materials	(46,715)	-41,9%	(46,117)	-44,4%
Services, leases and rentals	(32,199)	-28,9%	(31,182)	-30,0%
Personnel costs	(22,050)	-19,8%	(20,795)	-20,0%
Other operating expenses	(1,653)	-1,5%	(1,220)	-1,2%
PRODUCTION COSTS	**(102,617)**	**-92,1%**	**(99,314)**	**-95,5%**
GROSS OPERATING PROFIT	**8,747**	**7,9%**	**4,661**	**4,5%**
Amortisation and depreciation	(4,254)	-3,8%	(3,543)	-3,4%
Provisions and writedowns	(0,076)	-0,1%	(0,976)	-0,9%
NET OPERATING PROFIT	**4,417**	**4,0%**	**0,142**	**0,1%**
Financial income (expense)	(1,054)	-0,9%	(0,855)	-0,8%
PRE-TAX PROFIT	**3,363**	**3,0%**	**(0,713)**	**-0,7%**
Income taxes	9,326	8,4%	(0,140)	-0,1%
NET PROFIT	**12,689**	**11,4%**	**(0,853)**	**-0,8%**