

GRUPPO CERAMICHE RICCHETTI SPA
ANNUAL REPORT 2000

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GRUPPO CERAMICHE RICCHETTI

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OY PUKKILA AB
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KLINGENBERG DEKORAMIK GMBH
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CINCA COMPANHIA INDUSTRIAL DE CERAMICA SA
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Strada delle Fornaci, 20 -I-41100 Modena

GRES 2000 S.R.L.
Via Palona, 28 -I-41014 Castelvetro (Modena)

TILENET S.R.L.
Strada delle Fornaci, 20 -I-41100 Modena

L.G.S. LA GENERALE SERVIZI S.R.L.
Strada delle Fornaci, 20 -I-41100 Modena

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C.so del Popolo 54B -I-30171 Mestre (Venezia)

BELLEGGROVE CERAMICS PLC
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CASA REALE CERAMIC INC.
913 W.N. Carrier Parkway - Grand Prairie, Texas 75050 (Usa)

RICCHETTI CERAMIC INC.
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EVERS AS
Ejby Industrivej 2 - P.O. Box 1402 - 2600 Glostrup (Danimarca)

HÖGANÄS BYGGKERAMIKK AS
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HÖGANÄS CÉRAMIQUES FRANCE SA
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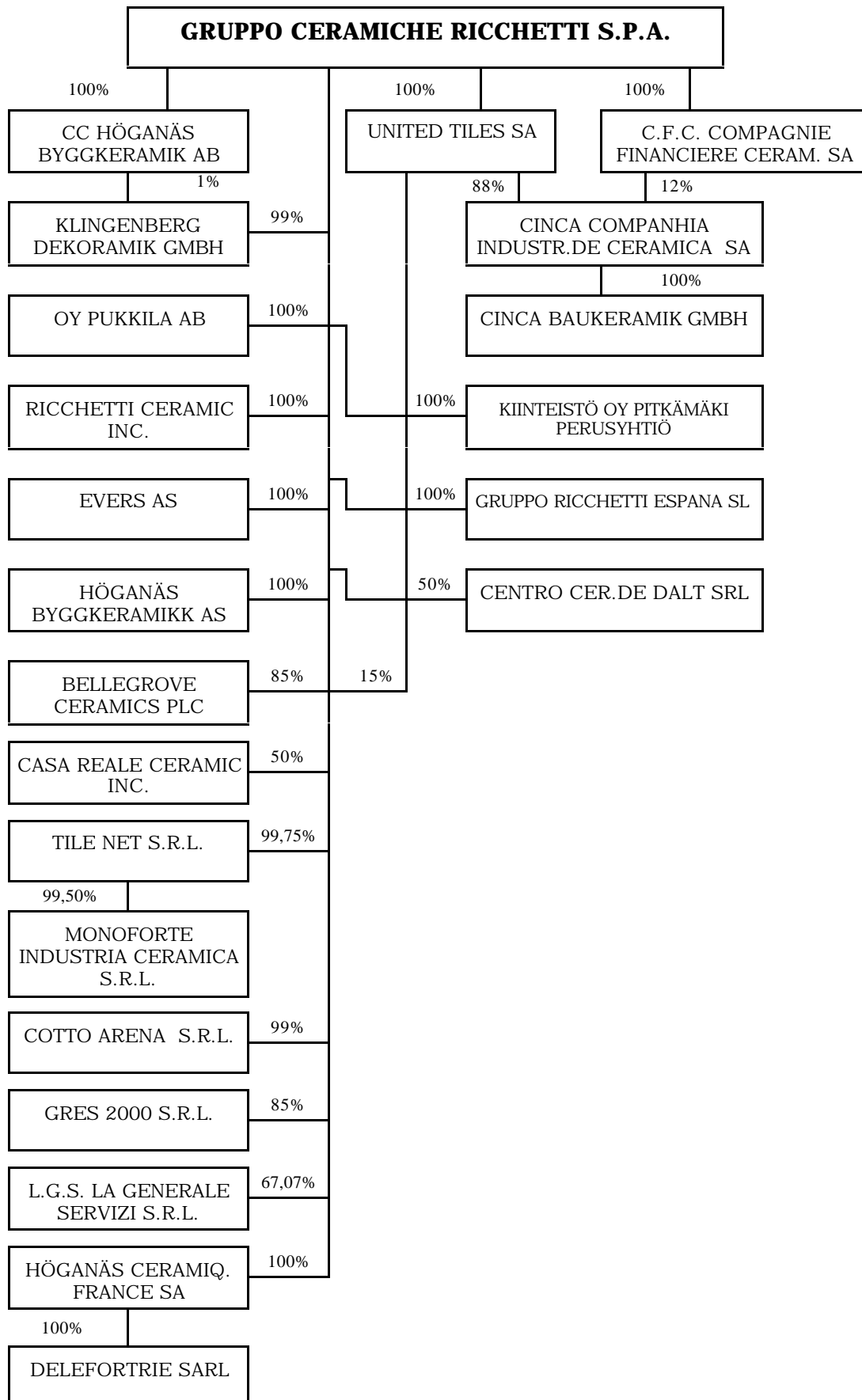
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Lange Wieske 1 D48231 Warendorf (Germania)



MANAGEMENT

BOARD OF DIRECTORS

(The Board's term of office expires on the approval of the financial statements for the year ended 31 December 2000)

OSCAR ZANNONI
Chairman of the Board

NEDO BROGI
Managing Director

GIULIANO PANIZZI
Director

ALFONSO PANZANI
Director

LOREDANA PANZANI
Director

GIANCARLO PELLATI
Director

GIUSEPPE ZANNONI
Director

STATUTORY AUDITORS

(The Statutory Auditors' term of office expires on the approval of the financial statements for the year ended 31 -12- 2000)

CLODOMIRO ZANASI
President

ALBERTO BARALDI
Statutory Auditor

CARLO RICCO'
Statutory Auditor

EXTERNAL AUDITORS :

PRICEWATERHOUSECOOPERS S.P.A.

DIRECTORS' REPORT ON GROUP ACTIVITIES - 2000

Dear Shareholders

This report accompanies the consolidated financial statements for the year ended 31 December 2000. It has been prepared by the Board of Directors which is composed of the following members:

| | |
|-------------------|------------------------------------|
| Oscar Zannoni | Chairman of the Board of Directors |
| Nedo Brogi | Managing Director |
| Alfonso Panzani | Director |
| Loredana Panzani | Director |
| Giuliano Panizzi | Director |
| Giancarlo Pellati | Director |
| Giuseppe Zannoni | Director |

The Board's term of office expires on the Shareholders' approval of the financial statements for the year ended 31 December 2000, as decided at the Shareholders' Annual General Meeting held on 24 June 2000.

DEVELOPMENTS IN THE TILES INDUSTRY

The rise in domestic and foreign demand greatly boosted the sales of tiles made by Italian manufacturers, which rose by about 6%. This increase is the result of the lively trend in the world tiles market, even though Italian producers have been hit by competition coming from emerging competitors, first of all in Spain, but also in Turkey and the Czech Republic.

The European markets saw the continuation of heavily increased investment in building in France where tiles sales rose close on 10%. On the other hand, the German market still had troubles and in 2000 went again down, by 1.1%. The minor markets generally tended to expand (between 1% and 6%) except in the case of Austria where tile purchases continued to drop.

Tile sales to North America had a two-figure rise for the fifth year in a row, reaching over 240 million square metres. Behind this was the sharp rise in building in the second half of the nineties and the constantly increasing share of the market which tiles were taking over from other paving and wall-facing materials. The present slow-down in the American economy will to a certain extent stabilise the amount spent on construction, thus removing one of the two factors which over the recent past have led to increased tiles consumption. There are however still good openings to further increase sales, depending on the level of the sellers' ability to promote and sell their products against other paving and wall-facing materials.

There was a sharp increase, of over 10%, in tiles purchases in Central and East Europe. Economic recovery in the countries of this area led to spending on construction, which was

also beneficial to the tiles market. The most dynamic market was in Russia where, after the crisis of 1998 and 1999, there was an increase of close on 15%. High international energy prices (and, in general, most raw materials prices) were the major factor supporting the Russian economy, which managed to compensate the negative effects of the slow rate at which the country was moving towards a market economy.

There was heavy growth in tiles sales also in Italy. After the good results of 1999, there was an increase of nearly 5%. Buildings restoration continued and there was renewed spending on new homes and non-residential building. These factors kept up the level of tiles purchases, especially in the first part of the year.

OVERVIEW OF GROUP RESULTS, OPERATING CONDITIONS AND BUSINESS DEVELOPMENTS

With the absorption of I.C.C.C. Industrie Ceramiche Cisa Cerdisa last year, the Ricchetti Group laid the foundation for becoming, in terms of magnitude, one of the primary world groups in the sector, endowed with the necessary capabilities to meet the challenges arising out of the trends which are underway towards business concentrations and globalisation, by which our industry sector is also affected.

The Ricchetti Group developed further types of the porcelain product both in its natural and glazed varieties, which are the driving products in the entire sector.

Today, our Group ranks with the primary manufacturers of porcelain stoneware. In Italy and abroad, we are directing our investment in technology towards developing a range of glazed porcelain products in all the different forms possible, wear-resistant and with aesthetic appeal, which are the characteristics now being sought by the market.

All the makers of our Italian and foreign brands will therefore be in a position to develop, working autonomously as is the Group's practice, a complete product range, with competitive production costs compared with our strongest competitors.

The seven Italian facilities will aim, as far as possible, in specialising in particular type ranges, so as to obtain production and management synergies which will benefit the various Group brands and ensure cost-effective production with a suitable level of elasticity in delivery. This is necessary to sharpen our competitive edge in customer service and should also lead to cutting down the level of finished product inventories.

Consolidated Group sales reached Lire 726 billion as against Lire 713 billion in the preceding year, net of intercompany billings of about Lire 69 billion in 2000 (Lire 70 billion in 1999).

Labour costs in the year were Lire 182.1 billion in the year compared with Lire 182.3 billion in 1999, representing 25.07% of production costs in 2000 and 24.9% in 1999. The average number of employees in 2000 was 2,697, of whom 1,361 were in foreign operations, as against a total of 2,762 in 1999, of whom 1,403 were abroad.

The Group's finished products inventory at 31 December 2000 totalled Lire 205 billion, with total production value in the year standing at Lire 726 billion.

INFORMATION ON THE INDIVIDUAL GROUP COMPANIES' ACTIVITIES

Information is now given on the activities of the individual Ricchetti Group companies and the major events affecting them. Summaries are also provided of their results and financial positions for 2000 compared with those of 1999. This financial data has been translated into lire using the relative average rate for the year for profit and loss account items and the relative year-end rate for balance sheet items. The financial statements which were consolidated have been used for these purposes, appropriately stated on the basis of the same Group accounting principles and cleared of accounting entries recorded for purely fiscal purpose.

GRUPPO CERAMICHE RICCHETTI SPA

A summary of the key profit and loss account and balance sheet data for 2000 of the parent company is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--|--------------|--------------|
| Assets | 639,040 | 609,157 |
| Shareholders' equity | 228,469 | 215,534 |
| Liabilities | 410,571 | 393,623 |
| Profit and loss account | 2000 | 1999 |
| Production value | 398,463 | 393,217 |
| Production costs | (374,020) | (361,950) |
| Dividends from subsidiaries and associated companies | 17,500 | 1,635 |
| Net financial charges | (15,724) | (16,012) |
| Investment write-downs | (13,213) | (2,552) |
| Net exceptional charges | (49) | (222) |
| Taxes | (7,002) | (10,938) |
| Net profit for the year | 5,955 | 3,178 |

The parent company's financial statements show a net profit for the year of Lire 5,955 million, compared with Lire 3,178 million in the preceding year.

Sales for the year, amounting to about Lire 401.3 billion, were made 37.6% in Italy and 62.4% abroad (respectively 38.4% and 61.6% in 1999).

Production costs were 93.9% of production value in 2000 as against 92% in 1999.

In 2000, the companies in which the parent company had holdings declared dividends of about Lire 13.7 billion. In the case of our Portuguese subsidiary Cinca it was not possible to transfer the dividends as a result of the limitations imposed by local regulations with regard to the Cinca-Servimarketing merger which was effected in 1998.

The percentage incidence of net financial charges on sales was about 2.4% (2.7% in 1999) net of cash discounts which had a 1.5% incidence which was the same as in 1999.

The investment write-downs relate in substance to the reduction in the value of the shares in our subsidiary Bellegrove Ceramics Plc. There was a drastic reduction in 2000 in the sales of our Bellegrove subsidiary to its major customer. This circumstance, together with the fact that the mark-up being applied was not sufficient to cover fixed costs, led us to requesting a revision of the contract with the customer in question, so that the subsidiary might return to a state of financial balance. The negotiations were initiated during 2000 and lasted up to early 2001, but did not lead to an agreement which could allow the company to continue trading with the customer, considering the changes in the mix of products being sold (which were more and more directed to low-bracket products), increased market competition, and our own strategic plan to reduce the incidence of fixed costs at Bellegrove. As a result, we decided to reorganise the subsidiary, reducing its size by laying off staff and concentrating its finished products inventory, thus streamlining the company's structure so as to enable it to continue in business.

As a result of the re-organisation, we had to reduce the value of the holding to its equity value, writing it down by about Lire 12,195 million.

Earnings before interest and taxes passed from 7.9% of production value in 1999 to 6.1% in 2000, while earnings before interest, taxes, depreciation and amortisation dropped from

16% of production value in 1999 to 12.6% in 2000.

The parent company revalued two industrial buildings in the year which were no longer being used, as permitted by Law 342 of 21 December 2000. Reference should be made to the relative notes to the consolidated financial statements for information as to the effects of the revaluation on the values of fixed assets, taxes payable and shareholders' equity.

CC HÖGANÄS BYGGKERAMIK AB - SWEDEN

In Sweden, Höganäs Byggkeramik AB is the leader in the production of clinker and sells a vast range of ceramic products and accessories (application materials), with an over century-old brand and a good share of the local market.

A summary of the key profit and loss account and balance sheet data for 2000 of CC Höganäs Byggkeramik AB is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|----------------------------------|--------------|-------------|
| Assets | 40,757 | 44,821 |
| Shareholders' equity | 14,445 | 13,797 |
| Liabilities | 26,312 | 31,024 |
| Profit and loss account | 2000 | 1999 |
| Production value | 76,989 | 73,429 |
| Production costs | (74,784) | (72,643) |
| Net financial charges | (648) | (349) |
| Net exceptional income/(charges) | - | - |
| Taxes | (457) | (142) |
| Net profit for the year | 1,100 | 295 |

CC Höganäs Byggkeramik AB's financial statements show a net profit for the year of SwK 4.8 million (about Lire 1.1 billion) compared with about SwK 1.3 million (about Lire 300 million) in the preceding year.

Good results were by brought in by capital expenditure on restructuring sales points, display materials at 250 new customers and internal restructurings connected with the acquisition, during the year, of an Optiroc business segment.

Sales in 2000 were about SwK 330 million (SwK 324 million in 1999), or about Lire 75.7 billion (Lire 71 billion in 1999). It should also be underlined that about 5.8 per cent of these sales were made to Group companies, mainly Norway (1.1 per cent), Denmark (1.5 per cent), Finland (1 per cent) and France (2.2 per cent) with about a further 5.6 per cent outside Sweden.

The company has decided to distribute the equivalent of Lire 894 million in dividends.

OY PUKKILA AB - FINLAND

In Finland, OY Pukkila AB produces and distributes a range of high quality glazed products (for external facades, swimming pools, with specific frost-resistant characteristics) to all the Scandinavian countries and has a local market share of about 25 per cent. In 2000, the parent company's products also continued to be sold on the market.

A summary of the key profit and loss account and balance sheet data for 2000 of OY Pukkila AB is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-------------|--------------|
| Assets | 36,520 | 38,215 |
| Shareholders' equity | 24,776 | 24,620 |
| Liabilities | 11,744 | 13,595 |
| Profit and loss account | 2000 | 1999 |
| Production value | 38,875 | 39,558 |
| Production costs | (38,396) | (35,937) |
| Net financial charges | (324) | (103) |
| Net exceptional income | 1 | - |
| Taxes | - | - |
| Net profit for the year | 156 | 3,518 |

OY Pukkila AB's financial statements show a net profit for the year of FM 0.5 million (about Lire 156 million) compared with about FM 10.8 million (about Lire 3.5 billion) in the preceding year.

Sales in 2000 were about FM 119 million (FM 121 million in 1999), or about Lire 38.8 billion (Lire 39 billion in 1999).

Of this turnover about 13 per cent was sold to Group companies (principally Sweden - 11 per cent) with the remainder being sold mainly on the Finnish market (86 per cent).

Profits for the year were hurt by the restructuring of the company's products which resulted in higher production costs. In 2001 it is making a recovery, as compared with 2000.

[KLINGENBERG DEKORAMIK GMBH - GERMANY](#)

In Germany, the Group is represented by the German production company, Klingenberg Dekoramik GmbH. It also markets the products of our Portuguese subsidiary, Cinca, with an exclusive agency agreement.

A summary of the key profit and loss account and balance sheet data for 2000 of Klingenberg Dekoramik GmbH is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|----------------------------------|-------------|-------------|
| Assets | 21,745 | 23,227 |
| Shareholders' equity | 11,603 | 10,904 |
| Liabilities | 10,142 | 12,323 |
| Profit and loss account | 2000 | 1999 |
| Production value | 27,051 | 28,173 |
| Production costs | (25,393) | (25,602) |
| Net financial charges | (850) | (740) |
| Net exceptional income/(charges) | - | - |
| Taxes | (109) | (933) |
| Net profit for the year | 699 | 898 |

Klingenberg Dekoramik GmbH's financial statements show a net profit for the year of DM 0.7 million (DM 0.9 million in 1999), equal to about Lire 699 million (Lire 898 million in 1999), after charging depreciation and amortisation of Lire 2,435 million, compared with Lire 2,373 million in the preceding year.

Sales in 2000 were about DM 25.7 million (DM 27 million in 1999), or about Lire 25.5 billion, of which about 19 per cent were made to Group companies (especially to Sweden, Norway, Denmark and Finland) and 71 per cent on the domestic market.

The company has decided to distribute the equivalent of Lire 885 million in dividends.

HÖGANÄS BYGGKERAMIKK AS - NORWAY

In Norway, the trading company Höganäs Byggkeramik AS, with its head office in Oslo, distributes the Group's ceramic products as well as accessories for applying tiles, with a market share of about 13 per cent.

A summary of the key profit and loss account and balance sheet data for 2000 of Höganäs Byggkeramik AS is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|--------------|--------------|
| Assets | 5,594 | 5,741 |
| Shareholders' equity | 821 | 645 |
| Liabilities | 4,773 | 5,096 |
| Profit and loss account | 2000 | 1999 |
| Production value | 19,048 | 15,392 |
| Production costs | (19,745) | (15,415) |
| Net financial income | 100 | 72 |
| Net exceptional charges | - | (382) |
| Taxes | - | - |
| Loss for the year | (597) | (333) |

Höganäs Byggkeramik AS's financial statements show a loss for the year of NK 2.5 million, or about Lire 597 million, compared with a loss of NK 1.4 million, or Lire 333 million, in 1999.

Despite the positive future prospects which were contemplated at the start of 2000, when sales were on the rise, the past year did not even reach a break-even result. Acquiring the rights to distribute our products through the Maxbo chain should however produce concrete results as from 2001. Even with the present lack of earnings, we consider that the company will be able to get into a profit situation through increasing its competitive edge.

Sales in 2000 were about NK 81.3 million (NK 65 million in 1999), equal to about Lire 19.4 billion, entirely made on the Norwegian market.

EVERS AS - DENMARK

In Denmark, the sales company, Evers AS, with its head office in Copenhagen, is, in terms of both volume and prestige, the largest importer of ceramic tiles and application materials. It is the point of reference for architects and builders at the top end of the market and has a local market share of well over 25 per cent.

A summary of the key profit and loss account and balance sheet data for 2000 of Evers AS is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-------------|--------------|
| Assets | 4,428 | 4,429 |
| Shareholders' equity | 1,770 | 2,212 |
| Liabilities | 2,658 | 2,217 |
| Profit and loss account | 2000 | 1999 |
| Production value | 18,020 | 16,864 |
| Production costs | (16,576) | (15,408) |
| Net financial charges | (362) | (206) |
| Net exceptional charges | (96) | - |
| Taxes | (177) | - |
| Net profit for the year | 809 | 1,250 |

Evers AS's financial statements show a net profit for the year of DK 3.1 million (DK 4.8 million in 1999), equal to about Lire 0.8 billion (Lire 1.3 billion in 1999).

Sales in 2000 were about DK 69 million, equal to about Lire 18 billion (DK 63 million, or Lire 16.5 billion, in 1999), and were almost entirely made on the domestic market.

The company concentrates all its activities at its central office in Copenhagen, where it promotes all the Group products to the best customers in the market in a prestigious, high-quality showroom.

The company has decided to distribute the equivalent of Lire 842 million in dividends.

HÖGANÄS CERAMIQUES SA - FRANCE

In France, the sales company Höganäs Céramiques SA integrates the distribution of the products of its Swedish fellow-subsiary with the production of adhesive materials for applying tiles. It supplies a complete service to a special segment of the food market, in which it holds a market share of over 50 per cent.

A summary of the key profit and loss account and balance sheet data for 2000 of Höganäs Céramiques SA is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-------------|-------------|
| Assets | 4,479 | 4,884 |
| Shareholders' equity | 2,589 | 2,260 |
| Liabilities | 1,890 | 2,624 |
| Profit and loss account | 2000 | 1999 |
| Production value | 7,282 | 7,998 |
| Production costs | (6,750) | (7,602) |
| Net financial charges | (11) | (42) |
| Net exceptional income | 2 | - |
| Taxes | (194) | (146) |
| Net profit for the year | 329 | 208 |

Höganäs Céramiques SA's financial statements show a net profit for the year of FF 1.1 million (FF 0.7 million in 1999), equal to about Lire 329 million.

Sales in 2000 were about FF 25 million, equal to about Lire 7.4 billion (FF 26.4 million, or Lire 7.8 billion, in 1999), and were almost entirely made on the domestic market.

The company has decided to distribute the equivalent of Lire 443 million in dividends.

RICCHETTI CERAMIC INC - USA

The sales company, Ricchetti Ceramic Inc, with its head office in Melbourne, Florida, acts as an agent for Ricchetti brand products.

A summary of the key profit and loss account and balance sheet data for 2000 of Ricchetti Ceramic Inc. is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|----------------------------------|-------------|-------------|
| Assets | 1,283 | 1,095 |
| Shareholders' equity | 1,250 | 872 |
| Liabilities | 33 | 223 |
| Profit and loss account | 2000 | 1999 |
| Production value | 2,591 | 2,439 |
| Production costs | (2,292) | (2,348) |
| Net financial income | 13 | 6 |
| Net exceptional income/(charges) | - | - |
| Taxes | - | - |
| Net profit for the year | 312 | 97 |

UNITED TILES SA - LUXEMBOURG

This company is a sub-holding company of Gruppo Ceramiche Ricchetti which holds 83.75% of Cinca SA, Portugal and 15% of Bellegrave Ceramics Plc, England.

A summary of the key profit and loss account and balance sheet data for 2000 of United Tiles SA. is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|---------------------------------------|----------------|--------------|
| Assets | 90,703 | 36,124 |
| Shareholders' equity | 28,731 | 35,374 |
| Liabilities | 61,972 | 750 |
| Profit and loss account | 2000 | 1999 |
| Production value | - | - |
| Production costs | (116) | (111) |
| Net financial charges | (196) | (156) |
| Value adjustments to financial assets | (6,330) | (332) |
| Net exceptional income/(charges) | - | - |
| Taxes | - | - |
| Loss for the year | (6,642) | (599) |

The negative results for the year felt the effects of the write-down arising on the year-end valuation of securities issued by non-Group companies, and the write-down of its shares in Bellegrave Ceramics Plc which was made to reflect this company's loss for the year and the consequent adjustment made to the value of goodwill paid for at the time of the acquisition. This has been done in a manner consistent with the action taken by the parent company.

C.F.C. COMPAGNIE FINANCIERE CERAMIQUE SA - LUXEMBOURG

This company is a sub-holding company of the Ricchetti Group which holds 11.437% of Cinca SA, Portugal.

A summary of the key profit and loss account and balance sheet data for 2000 of C.F.C. Compagnie Financière Céramique SA is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|---|---------------|-------------|
| Assets | 63,758 | 40,812 |
| Shareholders' equity | 59,657 | 40,802 |
| Liabilities | 4,101 | 10 |
| Profit and loss account | 2000 | 1999 |
| Production value | - | - |
| Production costs | (169) | (82) |
| Net financial income | 19,174 | 3 |
| Net exceptional charges | (8) | - |
| Taxes | (49) | - |
| Net profit / (loss) for the year | 18,948 | (79) |

The net profit for the year is mainly the result of the gain on sale of listed securities to third parties.

The company has decided to distribute the equivalent of Lire 8,932 million in dividends.

CINCA COMPANHIA INDUSTRIAL DE CERAMICA SA - PORTUGAL

A summary of the key profit and loss account and balance sheet data for 2000 of Cinca Companhia Industrial de Ceramica is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|----------------------------------|--------------|--------------|
| Assets | 91,749 | 93,264 |
| Shareholders' equity | 46,546 | 40,607 |
| Liabilities | 45,203 | 52,657 |
| Profit and loss account | 2000 | 1999 |
| Production value | 92,813 | 90,981 |
| Production costs | (80,276) | (74,381) |
| Net financial charges | (2,960) | (1,863) |
| Net exceptional income/(charges) | - | - |
| Taxes | (3,638) | (5,754) |
| Net profit for the year | 5,939 | 8,982 |

Cinca Companhia Industrial de Ceramica's financial statements show a net profit for the year of Esc 615 million (Esc 930 million in 1999), equal to about Lire 5,939 million (Lire 8,982 million in 1999)..

Sales in 2000 were about Esc 9.5 billion (also Esc 9.5 billion in 1999), equal to about Lire 92 billion. They were made 57 per cent on the Portuguese market and 41 per cent on other markets (of which 12 per cent was in France). The remaining 2 per cent was sold to non-European countries. As against the preceding year, the results for 2000 were hit by increased energy and financial costs.

COTTO ARENA SRL

Cotto Arena Srl sells Stilgres and Tilegres brand products.

A summary of the key profit and loss account and balance sheet data for 2000 of Cotto Arena Srl is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|--------------|-------------|
| Assets | 21,501 | 22,672 |
| Shareholders' equity | (213) | (20) |
| Liabilities | 21,714 | 22,692 |
| Profit and loss account | 2000 | 1999 |
| Production value | 18,444 | 13,997 |
| Production costs | (18,714) | (14,595) |
| Net financial charges | (133) | (81) |
| Net exceptional income | - | 616 |
| Taxes | (56) | (36) |
| Loss for the year | (459) | (99) |

Cotto Arena Srl's financial statements show a loss for the year of Lire 459 million, compared with a loss of Lire 99 million in 1999.

Sales in 2000 were about Lire 18,731 million (Lire 14,343 million at 31 December 1999). Sales were made abroad to the extent of about 66% (67% in 1999) and the remaining 34% approximately (33% in 1999) in Italy.

The company's share capital will be reconstituted in 2001.

TILENET SRL

A summary of the key profit and loss account and balance sheet data of Tilenet Srl for the year ended 31 October 2000 is presented hereunder, together with the comparative figures for the year ended 31 October 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-------------|-------------|
| Assets | 1,200 | 1,225 |
| Shareholders' equity | 1,194 | 1,163 |
| Liabilities | 6 | 62 |
| Profit and loss account | 2000 | 1999 |
| Production value | - | - |
| Production costs | (12) | (35) |
| Net financial income | 34 | 16 |
| Net exceptional income | 8 | 49 |
| Taxes | - | (3) |
| Net profit for the year | 30 | 27 |

Tilenet Srl's financial statements show a net profit for the year of Lire 30 million, compared with about Lire 27 million in 1999.

The company continued during the year on the management of its shareholdings. It should be noted in particular that the company has the controlling interest (99.5%) in Monoforte Industria Ceramica Srl and a holding of 25% in T.C. Srl.

GRES 2000 SRL

Grès 2000 Srl carries out work on ceramic materials for third parties, in particular tile smoothing services.

A summary of the key profit and loss account and balance sheet data for 2000 of Grès 2000 Srl is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-------------|-------------|
| Assets | 9,522 | 8,359 |
| Shareholders' equity | 2,382 | 2,295 |
| Liabilities | 7,140 | 6,064 |
| Profit and loss account | 2000 | 1999 |
| Production value | 14,600 | 13,311 |
| Production costs | (14,013) | (12,593) |
| Net financial charges | (75) | (109) |
| Net exceptional charges | - | (3) |
| Taxes | (425) | (160) |
| Net profit for the year | 87 | 446 |

Grès 2000 Srl's financial statements show a net profit for the year of Lire 87 million, compared with about Lire 446 million in 1999.

Sales in 2000 were about Lire 14.5 billion and were made 76% to the parent company Gruppo Ceramiche Ricchetti SpA and 7.5% to Cotto Arena Srl.

The company has decided to distribute Lire 1,666 million in dividends.

LA GENERALE SERVIZI SRL

A summary of the key profit and loss account and balance sheet data for 2000 of La Generale Servizi Srl is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|---|-------------|--------------|
| Assets | 18,028 | 11,601 |
| Shareholders' equity | 523 | (242) |
| Liabilities | 17,505 | 11,843 |
| Profit and loss account | 2000 | 1999 |
| Production value | 23 | 443 |
| Production costs | (244) | (693) |
| Net financial income/(charges) | 879 | (117) |
| Value adjustments to financial assets | (381) | |
| Net exceptional income | 89 | 24 |
| Taxes | -- | -- |
| Net profit / (loss) for the year | 366 | (343) |

The financial statements of La Generale Servizi Srl show a net profit of lire 366 million for the year, compared with a loss of about Lire 343 million in 1999.

CENTRO CERAMICHE DE-DALT SRL

This company, which has its head office and showroom at Mestre (Venice), was formed during 2000. Its objects are the retail and wholesale sale of ceramic tiles and any other kind of building materials.

A summary of the key profit and loss account and balance sheet data of Centro Ceramiche De Dalt Srl at 31 December 2000 is presented hereunder (millions of lire):

| Balance sheet | 2000 |
|----------------------------------|--------------|
| Assets | 156 |
| Shareholders' equity | (31) |
| Liabilities | 187 |
| Profit and loss account | 2000 |
| Production value | 43 |
| Production costs | (186) |
| Net financial charges | (4) |
| Net exceptional income/(charges) | - |
| Taxes | - |
| Net profit for the year | (147) |

The loss is connected with start-up operations.

CASA REALE CERAMIC INC.

The sales company Casa Reale Ceramica Inc, with its head office in Grand Prairie, Dallas USA, distributes the Group's ceramic products.

A summary of the key profit and loss account and balance sheet data for 2000 of Casa Reale Ceramic Inc. is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|---|--------------|-------------|
| Assets | 2,197 | 1,985 |
| Shareholders' equity | 297 | 441 |
| Liabilities | 1,900 | 1,544 |
| Profit and loss account | 2000 | 1999 |
| Production value | 4,367 | 4,332 |
| Production costs | (4,395) | (4,075) |
| Net financial charges | (3) | (16) |
| Net exceptional charges | (93) | - |
| Taxes | | (31) |
| Net profit / (loss) for the year | (124) | 210 |

Casa Reale Ceramic Inc's financial statements show a loss for the year of about US\$ 59 thousand, equal to about Lire 124 million, as against a net profit of US\$ 115 thousand in 1999, equal to about Lire 210 million.

During the year the company made a dividend distribution for the equivalent of about Lire 27 million.

BELLEGROVE CERAMICS PLC

The British company Bellegrave Ceramics Plc, with its head office at Dartford (London), sells ceramic products in the United Kingdom.

A summary of the key profit and loss account and balance sheet data for 2000 of Bellegrave Ceramics Plc is presented hereunder, together with comparative figures for 1999 (millions of lire):

| Balance sheet | 2000 | 1999 |
|--------------------------------|-----------------|--------------|
| Assets | 40,779 | 61,379 |
| Shareholders' equity | 4,636 | 15,903 |
| Liabilities | 36,143 | 45,476 |
| Profit and loss account | 2000 | 1999 |
| Production value | 76,893 | 105,442 |
| Production costs | (84,889) | (104,586) |
| Net financial charges | (1,368) | (1,454) |
| Net exceptional charges | (2,135) | - |
| Taxes | | - |
| Loss for the year | (11,499) | (598) |

Bellegrave Ceramics Plc's financial statements show a loss of UK£ 3.6 million for the year (a loss of UK 203 thousand in 1999), equal to about Lire 11.5 billion.

There was a drastic fall in 2000 in the sales of our Bellegrave subsidiary to its major customer. This circumstance, together with the fact that the mark-up being applied was not sufficient to cover fixed costs, led us to requesting a revision of the contract with the customer in question, so that the subsidiary might return to a state of financial balance. The negotiations were initiated in 2000 and lasted up to early 2001, but did not lead to an agreement which could allow the company to continue trading with the customer, considering the changes in the mix of products being sold (which were being more and more directed to low-bracket products), increased market competition, and our own strategic plan to reduce the incidence of fixed costs at Bellegrave.

As a result, we decided to reorganise the subsidiary in the year, reducing its size by laying off staff and concentrating its finished products inventory, thus streamlining the company's structure so as to enable it to continue in business. The costs of the reorganisation worsened the company's loss.

TRANSACTIONS WITH ULTIMATE PARENT COMPANIES, ASSOCIATED COMPANIES AND ULTIMATE PARENT COMPANY SUBSIDIARIES

A summary follows of commercial transactions for purchases of materials and services, and financial transactions, between our ultimate parent companies and their subsidiaries, and the companies in the consolidation area, including the Group parent company.

| | Revenues from sales and services | Cost of purchases and services | Financial and miscellaneous charges | Financial and miscellaneous income |
|--|----------------------------------|--------------------------------|-------------------------------------|------------------------------------|
| Fincisa SpA | 13 | 818 | 39 | |
| H.P.F. SpA | 10 | | | |
| C.I.S.F. Ceramiche Industriali di Sassuolo e Fiorano SpA | 189 | 4,978 | 118 | |
| Ravenna Mill SpA | | 1,825 | | |
| Fin Mill SpA | | 28 | | |
| Kabaca | 299 | | | 68 |
| Beni Immobili SpA | 64 | 198 | | 10 |
| Eurofinanziaria SpA | 13 | | | |
| Vanguard Ceramiche Srl | 1 | | | |
| Target Srl | 109 | 1,725 | | |
| Mythos Srl | 281 | 2,012 | | |
| Top Campionature Srl | 35 | 1,871 | | |
| Afin SpA | | | | 8 |
| Total | 1,014 | 13,455 | 157 | 86 |

The cost of purchases of goods and services payable to the related company Ceramiche Industriali di Sassuolo e Fiorano SpA, comprise Lire 1,582 million for the company's rent and Lire 3,396 million for the purchase of finished products. In the cases of Target Srl, Mythos Srl and Top Campionature Srl, the costs relate to outside work on decor and the arrangement of samples. The Ravenna Mill SpA and Fin Mill SpA costs relate to the purchase of raw materials and related charges. The costs charged by Fincisa SpA relate to services received, mostly in connection with management control activities at the Ricchetti Group foreign companies.

All the above-mentioned transactions were at current market conditions and prices.

The Kabaca financial charges relate to interest on the bond loan issued by this company.

Reference should be made to the notes to the consolidated financial statements for information as to the balances open with related companies at the year-end and financial transactions with them.

OWN SHARES

The Shareholder's Meeting on 11 December 1997 authorised the Board of Directors to purchase the parent company's own shares on the automated stock exchange through authorised brokers. On 21 December 2000 the Shareholders' Meeting renewed this authorisation for a further 18 months.

At 31 December 2000, following the purchase of 3,262,500 shares and the sale of 4,307,500 in the period, 975,000 own shares of nominal value Lire 500 each were carried in the balance sheet for a total purchase value of Lire 2,221.5 million. As a result of the trend in the listed price in the first quarter of 2001, the value of these shares dropped about Lire 271 million under their book value. The fall in the value of own shares after the balance sheet date is considered to be an exceptional event, in the light of the high volatility of the market, and accordingly, if it is confirmed, it will be treated as a matter regarding the financial statements for 2001.

The investment in own shares is covered by a specific reserve of the same amount carried with equity.

Dealing in own shares generated a gain of about Lire 411 million which has been classified with *Other financial income* in the profit and loss account.

RESEARCH AND DEVELOPMENT

The research and development function is aimed at continually renewing our production processes, for the purpose of adapting them to new technologies and optimising production cycles, as well as keeping an eye on the market so that through the development of new products we can enrich and renew the product range offered by the Group.

To this end the Group uses its internal structures (sometimes with the assistance of outside consultants) which include a modern chemical laboratory equipped with all the necessary apparatus. The laboratory also has a pilot plant with which it is possible to reproduce, on a reduced scale, the manufacturing processes for the various production lines.

SHAREHOLDINGS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

| First name and surname | Company in which shares are held | Number of shares held at the end of the preceding year | Number of shares acquired | Number of shares sold | Number of shares held at the end of the current year |
|------------------------|----------------------------------|--|---------------------------|-----------------------|--|
| Alfonso Panzani | Gruppo Ceramiche Ricchetti SpA | 177,500 | 993,356 | 177,500 | 993,356 |
| Loredana Panzani | Gruppo Ceramiche Ricchetti SpA | 50,000 | 3,592,680 | 30,000 | 3,612,680 |

SIGNIFICANT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In addition to what has already been described in relation to our subsidiary Bellegrove Ceramics Plc, we report the following significant events which have occurred after the close of the financial year:

- in February 2001 we signed a strategically important agreement with Ceramic Industries, a leader in the South African market in tiles and sanitary fittings. According to the agreement made between the Ricchetti Group and Ceramic Industries, a joint venture company will be set up, called *Orange Moon*, with share capital of Lire 20 billion to be subscribed for equally by the two groups. This investment will lead to the creation, in a production facility located at Sorbolo di Parma, of two new production lines, for over 6 million square meters a year, for the manufacture of single-fired tiles made from red clay with the objective of reaching Lire 35 billion sales already as from 2002.

Ceramic Industries Ltd, which has been listed on the Johannesburg stock exchange from 1992 and has a capitalisation of about Rand 700 million (equal to about Lire 180 billion), is the most important producer of ceramic tiles and sanitary fittings in South Africa and the surrounding countries, where it holds over 50% of the market with about 70 sales outlets, partly owned and partly under franchising agreements.

During 2000, the four Ceramic Industries factories produced 12 million square meters of tiles.

- In accordance with our policy to internationalise our operations, at the beginning of March 2001 we opened a new facility at Onda, one of the small towns in the ceramics district of Castellon in Spain. The new Spanish facility covers an area of about a thousand square meters, of which three hundred is for the showroom. Products on display will be of the Cisa, Cerdisa, Smov, Ricchetti and Cinca brands, of types destined in particular for a Spanish and Romance-language clientele in the high and medium-high brackets of the market. The choice of the Castellon district to house one

of our branches goes to reinforce our Group's international character, and is aimed at catching the attention not only of Spaniards but also of Central and South American customers who are often very alike because of language similarities, ways of life and contacts with one another. The Group is aiming in particular at the sale of small and large varieties of porcelain stoneware for floors and walls, and large ceramic lines made of white clay. In particular, there will be increased production of polished porcelain tiles which meet particularly with the Spanish taste.

FORESEEABLE DEVELOPMENTS IN THE BUSINESS

During the first two months of 2001, despite the drop in turnover at Bellegrove, sales of our various brands are showing a positive trend compared with the preceding year.

We are continuing to integrate our sales groups following the merger so as to attain a higher level of efficiency. We are going ahead with the process of specialising our brands as to the different market segments which are well-defined one from the other. To achieve this, we are setting up a *Large-Scale Distribution Division* which is intended in particular to serve a medium-to-low market bracket which is highly competitive but does not however require the same level of investment in marketing resources as is required for normal distribution. By making this division independent we will be able to reduce structural costs to the bare level required.

We recently inserted into our range of products new collections with higher added value from which we expect to reap the benefits in the first half of 2001. As a result of these new varieties, we expect an increase in production with our present structures in the second quarter of 2001 and, therefore, a consequent reduction in the incidence of production costs.

It is expected that the market in North Europe will grow as a result of the economic situations in the various countries of the region.

With regard to our subsidiary Bellegrove Ceramics Plc, we anticipate that the nature of this company will be radically changed. This will be as a result of the reorganisation which was made during the year and the fact that the subsidiary's strategies will be redirected in the light of the position the Group wishes to hold in the British market - its activities will pass from selling other companies' products to the direct sale of the products of our Group itself. This will be done also through new showrooms which will be opened.

It is expected that Group earnings will rise over the 2000 level.

We are in the process of setting up the accounting systems in euros for our subsidiaries. This will be completed in good time for the preparation of the 2001 financial statements.

Modena, 12 April 2001

For the Board of Directors
The Chairman
Oscar Zannoni

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

| CONSOLIDATED BALANCE SHEET - ASSETS | 31 December 2000 | 31 December 1999 |
|--|------------------------|------------------------|
| Subscribed capital unpaid | | |
| Non-current assets | | |
| Intangible assets | | |
| Formation, start-up and similar costs | 2,564,219,960 | 3,641,918,341 |
| Research, development and advertising costs | | |
| Patents and intellectual property rights | 1,539,085,562 | 1,083,690,813 |
| Concessions, licences, trademarks and similar rights | 990,135,141 | 1,181,159,339 |
| Goodwill, other than on consolidation | 3,570,500,034 | 4,137,647,572 |
| Goodwill on consolidation | 22,684,339,874 | 31,502,131,496 |
| Other intangible assets | 1,577,810,041 | 2,540,655,890 |
| Total intangible assets | 32,926,090,612 | 44,087,203,452 |
| Fixed assets | | |
| Land and buildings | 150,262,180,580 | 145,089,151,607 |
| Plant and machinery | 99,155,750,824 | 107,141,143,396 |
| Industrial and sales equipment | 1,172,229,788 | 2,705,216,437 |
| Other fixed assets | 10,815,489,940 | 10,826,468,953 |
| Assets under construction and payments on account | 242,841,824 | 1,221,839,173 |
| Total fixed assets | 261,648,492,956 | 266,983,819,566 |
| Financial assets | | |
| Investments in: | | |
| unconsolidated subsidiaries | 28,781,060 | 72,435,555 |
| associated companies | 4,992,162,209 | 6,565,152,025 |
| other companies | 2,699,218,943 | 2,372,177,550 |
| | 7,720,162,212 | 9,009,765,130 |
| Accounts receivable | | |
| from associated companies | 2,474,400,000 | -- |
| from others | 2,769,403,460 | 3,087,757,141 |
| | 5,243,803,460 | 3,087,757,141 |
| Other securities | 8,479,858,474 | 12,382,534,433 |
| Total non-current financial assets | 21,443,824,145 | 24,480,056,704 |
| Total non-current assets | 316,018,407,714 | 335,551,079,720 |

| CONSOLIDATED BALANCE SHEET - ASSETS | 31 December 2000 | 31 December 1999 |
|--|------------------------|------------------------|
| Current assets | | |
| Inventories | | |
| Raw materials, supplies and consumable stores | 18,341,933,791 | 18,278,011,850 |
| Work in progress and semifinished products | 6,492,992,552 | 5,041,243,533 |
| Finished products and merchandise | 180,281,276,556 | 204,158,450,002 |
| Payments on account | - | 70,329,310 |
| Total Inventories | 205,116,202,899 | 227,548,034,695 |
| Accounts receivable | | |
| Customers accounts receivable | | |
| - due within one year | 187,368,442,284 | 180,910,318,976 |
| - due after one year | | 2,923,180,283 |
| Total | 187,368,442,284 | 183,833,499,259 |
| Accounts receivable from associated companies | | |
| - due within one year | 151,600,940 | 131,326,023 |
| - due after one year | | |
| Total | 151,600,940 | 131,326,023 |
| Accounts receivable from parent company and its subsidiaries | | |
| - due within one year | 756,355,798 | 2,547,581,634 |
| - due after one year | | |
| Total | 756,355,798 | 2,547,581,634 |
| Other accounts receivable | | |
| - due within one year | 18,328,780,596 | 11,035,680,337 |
| - due after one year | 3,942,777,480 | 3,738,321,473 |
| Total | 22,271,558,076 | 14,774,001,810 |
| Total accounts receivable | 210,547,957,098 | 201,286,408,726 |
| Current financial assets | | |
| Own shares in portfolio | 2,221,539,208 | 4,214,373,946 |
| <i>(Nominal value)</i> | <i>487,500,000</i> | <i>1,010,000,000</i> |
| Other securities | 49,488,863,378 | 321,420,820 |
| Total current financial assets | 51,710,402,586 | 4,535,794,766 |
| Cash and cash equivalents | | |
| Bank and post office deposits | 91,549,157,263 | 58,093,951,126 |
| Cheques | 82,339,424 | 63,779,532 |
| Cash and cash equivalents on hand | 178,576,109 | 188,215,726 |
| Total cash and cash equivalents | 91,810,072,796 | 58,345,946,384 |
| Total current assets | 559,184,635,378 | 491,716,184,570 |
| Prepayments and accrued income | | |
| Miscellaneous | 3,412,224,043 | 2,809,120,391 |
| Total prepayments and accrued income | 3,412,224,043 | 2,809,120,391 |
| TOTAL ASSETS | 878,615,267,135 | 830,076,384,682 |

| CONSOLIDATED BALANCE SHEET - LIABILITIES AND EQUITY | 31 December 2000 | 31 December 1999 |
|---|------------------------|------------------------|
| Equity | | |
| Share Capital | 93,279,896,000 | 88,875,000,000 |
| Share premium account | 62,962,728,726 | 57,679,978,976 |
| Revaluation reserve | 23,902,919,847 | 17,731,578,026 |
| Legal reserve | 1,401,572,259 | 1,242,675,244 |
| Reserve for own shares in portfolio | 2,221,539,208 | 4,214,373,946 |
| Other reserves | 81,234,667,951 | 77,301,603,102 |
| Translation reserve | (3,877,232,754) | (3,912,875,638) |
| Net profit (loss) for the year | (6,720,995,950) | 11,153,844,338 |
| Minority interests in equity | 817,414,390 | 689,782,755 |
| Total equity | 255,222,509,678 | 254,975,960,749 |
| Provisions for liabilities and charges | | |
| Provision for retirement benefits and similar obligations | 9,816,496,114 | 9,773,377,617 |
| Tax provision | 10,382,058,954 | 11,549,789,181 |
| Other provisions | 1,769,276,388 | 1,200,797,076 |
| Total provisions for liabilities and charges | 21,967,831,456 | 22,523,963,874 |
| Provision for staff termination pay | 34,326,558,624 | 33,470,814,985 |
| Accounts payable | | |
| Bonds | | |
| - due within one year | 5,061,866,000 | 5,061,866,000 |
| - due after one year | | |
| Total | 5,061,866,000 | 5,061,866,000 |
| Amounts owing to banks | | |
| - due within one year | 174,532,539,217 | 89,702,461,719 |
| - due after one year | 180,253,700,568 | 193,334,593,018 |
| Total | 354,786,239,785 | 283,037,054,737 |
| Amounts owing to other lenders | | |
| - due within one year | 967,223,659 | 1,099,852,994 |
| - due after one year | 1,688,567,281 | 2,149,010,224 |
| Total | 2,655,790,940 | 3,248,863,218 |
| Payments received on account | | |
| - due within one year | 192,015,837 | 181,454,901 |
| - due after one year | | |
| Total | 192,015,837 | 181,454,901 |
| Accounts payable to suppliers | | |
| - due within one year | 139,151,270,623 | 157,446,978,939 |
| - due after one year | | 1,850,000,000 |
| Total | 139,151,270,623 | 159,296,978,939 |
| Accounts payable to associated companies | | |
| - due within one year | 903,905,457 | 985,999,807 |
| - due after one year | | |
| Total | 903,905,457 | 985,999,807 |

| CONSOLIDATED BALANCE SHEET - LIABILITIES AND EQUITY | 31 December 2000 | 31 December 1999 |
|---|------------------------|------------------------|
| Accounts payable to parent company and its subsidiaries | | |
| - due within one year | 11,098,283,277 | 15,184,834,772 |
| - due after one year | | |
| Total | 11,098,283,277 | 15,184,834,772 |
| Taxes payable | | |
| - due within one year | 11,120,654,558 | 19,839,747,265 |
| - due after one year | | |
| Total | 11,120,654,558 | 19,839,747,265 |
| Accounts payable to social security institutions | | |
| - due within one year | 8,233,848,349 | 7,121,500,222 |
| - due after one year | | |
| Total | 8,233,848,349 | 7,121,500,222 |
| Other accounts payable | | |
| - due within one year | 29,486,450,667 | 22,937,603,821 |
| - due after one year | | |
| Total | 29,486,450,667 | 22,937,603,821 |
| Total accounts payable | 562,690,325,493 | 516,895,903,682 |
| Accrued charges and deferred income | | |
| Miscellaneous | 4,408,041,884 | 2,209,741,391 |
| Total accrued charges and deferred income | 4,408,041,884 | 2,209,741,391 |
| TOTAL LIABILITIES AND EQUITY | 878,615,267,135 | 830,076,384,682 |

| CONSOLIDATED MEMORANDUM ACCOUNTS | 31 December 2000 | 31 December 1999 |
|----------------------------------|-----------------------|-----------------------|
| Commitments | 12,566,116,891 | 9,880,841,618 |
| Contingent liabilities | 27,849,547,616 | 16,713,205,258 |
| TOTAL MEMORANDUM ACCOUNTS | 40,415,664,507 | 26,594,046,877 |

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 2000 | 1999 |
|---|------------------------|------------------------|
| Production value | | |
| Revenues from sales and services | 725,843,339,737 | 712,902,531,600 |
| Change in inventories of work in progress, semifinished and finished products | (6,922,989,167) | 12,273,157,234 |
| Internal cost capitalisations | 105,929,907 | 118,445,480 |
| Other income: | | |
| - miscellaneous | 7,311,182,596 | 6,708,543,360 |
| Total production value | 726,337,463,073 | 732,002,677,674 |
| Production costs | | |
| Purchases of raw materials, supplies, consumable stores and merchandise | 230,034,066,369 | 263,619,394,575 |
| Cost of services | 199,136,455,806 | 171,423,794,442 |
| Rents, leasing and similar costs | 10,544,236,049 | 10,245,288,473 |
| Payroll costs | | |
| a) Salaries and wages | 130,411,088,139 | 132,340,716,387 |
| b) Social security | 40,615,746,469 | 39,483,921,563 |
| c) Staff termination pay | 6,989,125,001 | 6,476,188,960 |
| d) Retirement benefits and similar obligations | 747,345,125 | 2,602,764,803 |
| e) Other payroll costs | 3,338,899,238 | 1,409,753,786 |
| Total | 182,102,203,972 | 182,313,345,498 |
| Amortisation, depreciation and write-downs | | |
| Amortisation of intangible assets | 8,274,657,775 | 9,582,682,595 |
| Depreciation of fixed assets | 40,766,995,511 | 41,226,090,355 |
| Other intangible asset write-downs | 4,748,105,208 | 1,582,701,736 |
| Other non-current asset write-downs | 1,400,794,544 | 1,289,834,785 |
| Total | 55,190,553,038 | 53,681,309,472 |
| Change in inventories of raw materials, supplies, consumable stores and merchandise | 14,943,375,346 | (7,174,366,376) |
| Provisions for liabilities and charges | 8,093,394 | 22,447,374 |
| Other provisions | 395,073,190 | 229,856,439 |
| Miscellaneous operating costs | 8,165,416,507 | 7,233,739,004 |
| Total production costs | 700,519,473,671 | 681,594,808,900 |
| Operating profit | 25,817,989,403 | 50,407,868,774 |
| Financial income and charges | | |
| Share income | 4,505,143,537 | 57,922,752 |
| Other financial income: | | |
| a) from non-current accounts receivable | 92,407,875 | 97,495,676 |
| b) from non-current securities | 172,732,214 | 77,407,635 |
| c) from current securities | 1,357,259,515 | 396,607,538 |
| d) financial income other than the above: | | |
| - from associated companies | 9,087,275 | 3,517,274 |
| - from parent company and its subsidiaries | 9,644,808 | |
| - other | 6,034,659,941 | 4,517,644,111 |
| Total financial income | 12,180,935,165 | 5,150,594,986 |

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 2000 | 1999 |
|--|-------------------------|-------------------------|
| Interest expense and other financial charges: | | |
| - to parent company and its subsidiaries | (225,554,646) | (116,839,835) |
| - other | (29,484,680,502) | (26,184,746,693) |
| Total interest expense and financial charges | (29,710,235,148) | (26,301,586,528) |
| Total financial income and charges - net | (17,529,299,982) | (21,150,991,542) |
| Value adjustments to financial assets | | |
| Revaluations | | |
| Write-downs : | | |
| of shares | (735,893,590) | (435,204,000) |
| of current securities | (380,776,710) | |
| Total value adjustments to financial assets | (1,116,670,300) | (435,204,000) |
| Exceptional income and charges | | |
| Exceptional income: | | |
| - disposal gains | | 19,733,656 |
| - miscellaneous | 224,914,258 | 2,379,932,562 |
| Total | 224,914,258 | 2,399,666,218 |
| Exceptional charges: | | |
| - disposal losses | | 68,260,946 |
| - prior years' taxes | 145,615,093 | 360,256,639 |
| - miscellaneous | 2,358,268,292 | 1,847,118,600 |
| Total | 2,503,883,385 | 2,275,636,185 |
| Total exceptional income and charges - net | (2,278,969,127) | 124,030,033 |
| Profit before taxes | 4,893,049,993 | 28,945,703,264 |
| Income taxes for the year | 11,575,021,035 | 17,580,408,615 |
| Profit (loss) for the year including the portion pertaining to minority interests | (6,681,971,041) | 11,365,294,650 |
| Results for the year pertaining to minority interests | 39,024,908 | 211,450,312 |
| Net profit (loss) for the year | (6,720,995,950) | 11,153,844,338 |

Modena, 12 April 2001

For the Board of Directors

The Chairman

Oscar Zannoni

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2000 have been prepared in the format laid down by Legislative Decree 127 of 1991 and comprise the financial statements of the parent company and its subsidiaries as at 31 December 2000 approved in the usual case at their respective shareholders' meetings. In cases where the financial statements had not yet been approved by their shareholders' meetings at the time the consolidated financial statements were being prepared, those drawn up by their Boards of Directors for approval at the meetings have been used. These financial statements have been reclassified and, where necessary, adjusted to bring them into line with Group accounting principles, as well as to eliminate accounting entries which had been made for purely fiscal purposes.

Comparative financial statement figures for 1999 have been presented.

In addition, to provide a better understanding of the Group's results, also presented are the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the reconciliation between shareholders' equity as shown in the parent company and the consolidated financial statements.

The 2000 consolidated financial statements expressed in euros are also presented, pursuant to Consob's communication n° 98083971 of 26 October 1998.

GROUP ACTIVITIES AND STRUCTURE

The companies making up the Group are engaged almost exclusively in the industrial manufacture and sale of ceramic tiles for floors and walls and materials for their application.

The consolidated financial statements comprise those of the parent company Gruppo Ceramiche Ricchetti SpA and companies in which it holds majority voting rights either directly or indirectly.

The parent company is in turn controlled by Fincisa SpA whose registered office is at Sassuolo (Modena) in Via Mazzini 340. This company's share capital is Lire 40,171,945,000 fully paid.

Consolidated companies at 31 December 2000 are listed in the following table:

| Company | Registered office | %age held 1999 | %age held 2000 | Share capital | |
|---|-------------------|----------------|-----------------|---------------|-------------------------|
| | | | | Currency | 31 December 2000 Amount |
| Gruppo Ceramiche Ricchetti SpA | Italy | | Holding company | Lire | 93,279,896,000 |
| Tilenet Srl | Italy | 99.75 | 99.75 | Euros | 90,000 |
| Cotto Arena Srl | Italy | 99.00 | 99.00 | Euros | 50,000 |
| La Generale Servizi Srl | Italy | 99.00 | 67.07 | Euros | 80,000 |
| Grès 2000 Srl | Italy | 85.00 | 85.00 | Lire | 98,000,000 |
| Monoforte Ind. Cer. Srl | Italy | 99.25 | 99.25 | Lire | 20,000,000 |
| Centro Ceramiche De Dalt Srl | Italy | -- | 50.00 | Euros | 60,000 |
| Bellegrave Ceramics Plc | UK | 100.00 | 100.00 | UK£ | 2,000,000 |
| Casa Reale Ceramic Inc. | USA | 50.00 | 50.00 | US\$ | 130,000 |
| Ricchetti Ceramic Inc. | USA | 100.00 | 100.00 | US\$ | 900,000 |
| Klingenberg Dekoramik Gmbh | Germany | 100.00 | 100.00 | DM | 7,973,000 |
| OY Pukkila AB | Finland | 100.00 | 100.00 | FM | 30,000,000 |
| Kiinteistö Oy Pitkämäki Perusyhtiö | Finland | 100.00 | 100.00 | FM | 50,000 |
| CC Höganäs Byggkeramik AB | Sweden | 100.00 | 100.00 | SwK | 15,600,000 |
| Höganäs Byggkeramik AS | Norway | 100.00 | 100.00 | NK | 6,000,000 |
| Evers AS | Denmark | 100.00 | 100.00 | DG | 3,300,000 |
| Höganäs Céramiq. France SA | France | 100.00 | 100.00 | FF | 1,000,000 |
| Delefortrie SARL | France | 100.00 | 100.00 | FF | 650,000 |
| United Tiles SA | Luxembourg | 100.00 | 99.99 | Lire | 36,000,000,000 |
| C.F.C. SA | Luxembourg | 100.00 | 99.99 | Lire | 12,760,000,000 |
| Cinca Companhia Industrial de Ceramica SA | Portugal | 100.00 | 100.00 | Esc | 4,150,000 |

The holdings in subsidiary companies excluded from the consolidation, whose respective financial statements showed immaterial values, individually and in the aggregate, and in associated companies in which the Group holds from 20 to 49 per cent, were valued using the net equity method. In 2000, the subsidiary Centro Ceramiche De Dalt Srl was consolidated, even though the figures in its accounts were irrelevant to a large degree.

SIGNIFICANT EVENTS IN THE YEAR

There was a drastic fall in 2000 in the sales of our Bellegrave subsidiary to its major customer. This circumstance, together with the fact that the mark-up being applied was not sufficient to cover fixed costs, led us to requesting a revision of the contract with the customer in question, so that the subsidiary might return to a state of financial balance.

The negotiations were initiated towards the end of 2000 and lasted up to February/March of 2001, but did not lead to an agreement which could allow the company to continue trading with the customer, considering the changes in the mix of products being sold (which were being more and more directed to low-bracket products), increased market competition, and our own strategic plan to reduce the incidence of fixed costs at Bellegrave.

As a result, we decided to reorganise the subsidiary, reducing its size by laying off staff and concentrating its finished products inventory, thus streamlining the company's structure so as to enable it to continue in business.

The reorganisation, which took place in the year, entailed writing off the relative goodwill which had arisen on consolidation, as described in the note dealing with *intangible assets*.

CONSOLIDATION PRINCIPLES AND METHODS

The consolidation has been made using the normal line-by-line method for all financial statement components. The interests of minority shareholders are shown under separate headings in the consolidated balance sheet, included with equity, and in the consolidated profit and loss account.

The more significant consolidation principles applied are described hereunder:

- The book value of subsidiaries has been offset against the portion held of equity as appearing in their accounts at the time they were first consolidated. If the book value was less than such portion of equity, the difference has been credited to equity in the *Consolidation reserve*. The positive differences existing at the time of the first consolidation have been attributed in the consolidated financial statements, where possible, to the assets of the relevant company included in the consolidation, or were deducted, in past years, when they were not considered to represent goodwill, from the *Consolidation reserve*. Any remaining difference has been recorded as an asset termed *Goodwill arising on consolidation* which is being amortised on the straight-line method over a period of ten years, being the period over which it is considered reasonable that such goodwill will benefit the Group's operations;
- Profits earned after the date of the first consolidation have been taken to *Shareholders' equity* in the balance sheet as *Profits brought forward*. These are included with *Other reserves*.
- Assets and liabilities in the financial statements of foreign subsidiaries are translated into lire at the year-end exchange rate. The average rate for the year has been used for the profit and loss account. In particular, assets and liabilities in the financial statements of companies within the euro-zone have been translated into lire at the rates which were fixed as of 31 December 1998. Differences arising on the translation of the opening *Shareholders' equity* at the current year-end rate as against that used at the preceding year-end are taken to the *Translation reserve* which is included with the consolidated *Shareholders' equity* accounts. This also applies to differences arising between the translation of the profit and loss items at the average rate for the year and that resulting from the application of the year-end rate. The exchange rates used were as follows:

| Currency | | Average 2000 exchange rate | 31 December 2000 exchange rate |
|-------------------|------|-------------------------------|-----------------------------------|
| US dollar | US\$ | 2,100.98 | 2,080.89 |
| German mark | DM | 989.999131 | 989.999131 |
| Finnish mark | FM | 325.657236 | 325.657236 |
| Swedish krone | SwK | 229.23 | 219.25 |
| Norwegian krone | NK | 238.52 | 235.17 |
| Danish krone | DK | 259.65 | 259.45 |
| UK pound | UK£ | 3,177.62 | 3,102.50 |
| French franc | FF | 295.182459 | 295.182459 |
| Portuguese escudo | PTAS | 9.658074 | 9.658074 |

All significant intragroup transactions and balances have been eliminated on consolidation.

DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The date of the consolidated financial statements, 31 December 2000, corresponds with the financial closing dates of the companies consolidated.

VALUATION METHODS AND ACCOUNTING PRINCIPLES

The valuation methods and accounting principles applied in the preparation of the 31 December 2000 financial statements are consistent with those of the preceding year, except that two buildings no longer used by the parent company have been revalued as permitted by Law 342 of 21 November 2000.

Prudence has been applied in valuing the components of the financial statements. The accruals method of accounting has been followed on the basis that the Group is a going concern.

The more significant valuation methods used for the consolidation and for the adjustment of the accounts of individual subsidiaries, where appropriate, are described hereunder:

INTANGIBLE ASSETS

Intangible assets are recorded at historical cost and are amortised over the period during which they are reasonably estimated to benefit the business.

These relate to costs incurred which will undoubtedly produce a multi-year benefit and consist principally of goodwill on consolidation that is amortised over a period of 10 years.

Goodwill, other than on consolidation, is recorded when it is acquired for value. It is amortised over 10 years.

FIXED ASSETS

Fixed assets are taken up at purchase or construction cost, including related charges. They are shown net of accumulated depreciation. During the year, pursuant to Law 342 of 21 November 2000, the parent company revalued two buildings it was no longer using. The effects of this revaluation on the value of fixed assets and equity are described in the sections on *Fixed assets* and *Equity* in these notes. In addition, some of the fixed assets were revalued in preceding years, partly on a voluntary basis in 1992 pursuant to the last paragraph of article 2425 of the Civil Code before this was modified by Legislative Decree 197 of 1991, and partly on an obligatory basis under Law 413 of 30 December 1991 which required assets to be revalued following the loss in purchasing power of the lira. The value of certain land and buildings also includes part of the share purchase price which exceeded the equity value of such shares in consolidated companies.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

The period of depreciation starts in the year in which the assets are first used.

The depreciation rates used by Group companies are as follows:

| | |
|--------------------------------|----------|
| Buildings | 4 - 6.5% |
| Plant and machinery | 10 - 20% |
| Industrial and sales equipment | 20 - 40% |
| Other fixed assets | 10 - 33% |

Maintenance and repairs are charged off in the profit and loss account as incurred.

Expenses for improvements, modernisation and modifications that increase productivity or the useful lives of the assets are capitalised.

NON-CURRENT FINANCIAL ASSETS

Investments in unconsolidated subsidiary and associated companies are valued on the equity method. Holdings in other companies are valued at acquisition cost, adjusted for permanent losses in value, if any.

Non-current accounts receivable are valued at estimated realisable value.

Other securities are recorded at the lower of acquisition or subscription cost and estimated realisable value.

INVENTORIES

Inventories are valued at the lower of purchase or production cost and estimated realisable value. Cost, which includes related charges, is calculated using the weighted average cost method.

Such value is adjusted to market value, if lower, in the case of raw materials and finished goods which are obsolete or slow-moving.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at estimated realisable value.

CURRENT FINANCIAL ASSETS

Own shares are recorded at the lower of Fifo purchase cost, including related charges, and estimated market value.

Other securities are valued at the lower of Fifo cost and estimated realisable value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are shown at nominal value and are not pledged or subject to restrictions.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges relate to specific liabilities or charges whose existence is certain or else will probably arise, regarding which, at the balance sheet date, there is uncertainty as to the amount or date of the payment which will eventually have to be made.

The provision for retirement benefits and similar obligations relates to the pension schemes of a number of foreign subsidiaries set up under local legislation.

PROVISION FOR STAFF TERMINATION PAY

This provision relates almost entirely to the parent company. It covers the liability to each employee accrued up to the end of the financial year on the basis of the relative law and labour contracts.

ACCOUNTS PAYABLE

Accounts payable are stated at nominal value.

ACCRUED AND PREPAID EXPENSES, AND ACCRUED AND DEFERRED INCOME

These items are determined on an accruals basis.

ACCOUNTING FOR FOREIGN CURRENCY BALANCES AND TRANSACTIONS

Accounts receivable and payable in foreign currencies not forming part of the euro are translated into lire using the rate at the time of the related transaction. Any unrealised net exchange difference arising at the date of the balance sheet through the application of the

year-end rates to current accounts receivable and payable is charged to the profit and loss account and credited to the *Provision for foreign exchange risks*, which is carried with the *Provisions for liabilities and risks*. Unrealised net gains on exchange are not recorded, for reasons of prudence.

COST AND INCOME RECOGNITION

Sales income is recognised at the time title passes, generally the date of delivery. Revenue from services is recognised over the period they are being rendered. Income from financial transactions is accounted for as accrued.

Costs are recognised in the period to which they relate.

TAXATION

Provision for income taxes is made on the basis of the forecast liability for the year, applying the fiscal regulations and taking account of tax exemptions and reliefs.

Deferred tax liabilities and assets are recorded where applicable.

Deferred taxes, calculated at current rates, stem from timing differences arising between the value attributed to an asset or liability on the basis of generally accepted accounting principles and that recognised for fiscal purposes. Such differences mainly relate to costs and/or income which form part of the taxable income of a period which is different from the one in which they are recorded in the financial statements.

Deferred tax liabilities are recorded in a specific provision carried with *Provisions for liabilities and charges*. Deferred tax assets, or taxes paid in advance, are recorded if it is reasonably certain that, in the years in which the timing differences will reverse, there will be taxable income of not less than the amount of the differences themselves.

Deferred tax assets and liabilities are offset against one other when the law allows for such compensation.

Taxes relating to the revaluation made under Law 342 of 21 November 2000, which were charged directly against equity without being charged to the consolidated profit and loss account, were set off against the equity account which arose on the occasion of the revaluation itself.

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

Commitments and guarantees are stated in the consolidated memorandum accounts at their contractual values.

Where it is certain or probable that contingent liabilities will result in a charge, adequate provision is made for them on the basis of a best estimate in the *Provisions for liabilities and charges*.

Where, on the other hand, it is only possible that they will result in a charge, they are described in the notes to the consolidated financial statements without any provision being made.

INFORMATION ON THE MAJOR COMPONENTS OF THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Reference should be made to the Directors' Report for information on the overall situation of the companies included in the consolidation, business results, and balances and transactions between Group companies. Comments are now made hereunder on the individual items in the consolidated financial statements.

ASSETS

INTANGIBLE ASSETS

Changes in intangible assets were as follows (millions of lire):

| Description | Original cost | Accumulated amortisation | Balance at 31/12/99 | Increases | Amortn and write-downs | Other changes | Balance at 31/12/00 |
|--|---------------|--------------------------|---------------------|--------------|------------------------|---------------|---------------------|
| Formation, start-up and similar costs | 6,779 | (3,137) | 3,642 | 397 | (1,475) | | 2,564 |
| Research, development and advertising costs | - | - | - | | | | 0 |
| Patents and intellectual property rights | 2,960 | (1,876) | 1,084 | 1,095 | (636) | (3) | 1,539 |
| Concessions, licences, trademarks and similar rights | 1,929 | (748) | 1,181 | 1 | (192) | | 990 |
| Goodwill, other than on consolidation | 4,597 | (460) | 4,138 | - | (466) | (101) | 3,571 |
| Goodwill on consolidation | 47,903 | (16,401) | 31,502 | - | (8,818) | | 22,684 |
| Other intangible assets | 6,905 | (4,364) | 2,540 | 489 | (1,435) | (17) | 1,578 |
| Total | 71,073 | (26,986) | 44,087 | 1,982 | (13,022) | (121) | 32,926 |

Other changes relate to the effect of exchange rate variations.

Formation, start-up and similar costs include the costs of share capital increases and other changes to the Statutes. They are being amortised over a period of five years. *Increases* relate mainly to the merger costs incurred by the parent company relating substantially to advisory services covering the whole operation; they also are being amortised over a period of five years.

Patents and intellectual property rights comprise software and patent costs which are generally being written off over five years. The increase in the year mainly relates to the installation by the parent company of new operational information systems during the year.

Other intangible assets relate mainly to accessory costs for taking out mortgage loans as well as other deferred charges. They are being written off according to amortisation schedules based on the period over which they are estimated to be of use. The caption also includes the costs of listing the parent company on the Italian Stock Exchange, which have been completely amortised this year. *Other intangible assets* also include:

- costs of about Lire 312 million incurred during the year by our Norwegian subsidiary on obtaining the rights to sell *Ricchetti* brand products for three years over the Maxbo network. These are being amortised over the duration of the rights, namely three years;
- costs incurred by our Swedish subsidiary on renewing the display lay-outs at the Optiroc sales points which were acquired in 1999, to be amortised over a period of three years.

Goodwill other than on consolidation reflects the amount paid for goodwill by CC Höganäs Bygckeramik, Sweden to acquire the Optiroc business segment. This is being written off over ten years, a period which is considered appropriate for the same reasons as were adopted in deciding how to amortise the amount of *Goodwill arising on consolidation* relating to the company itself.

Goodwill arising on consolidation represents the excess of the cost of acquiring holdings in consolidated companies over the values of the subsidiaries' net equities at the time of acquisition. It is being amortised over ten years which is considered reasonable in relation to the reduced level of technical innovation expected in the product types involved.

Details per consolidated company are as follows (millions of lire):

| | Balance at 31/12/99 | Amortisation and write-downs | Balance at 31/12/00 |
|------------------------------------|------------------------|---------------------------------|------------------------|
| Nuove Ceramiche Ricchetti SpA | 1,368 | (228) | 1,140 |
| Klingenberg GmbH – Germany | 197 | (37) | 160 |
| Höganäs Bygggeramik AS – Norway | 3,514 | (648) | 2,866 |
| Evers AS – Denmark | 1,481 | (273) | 1,208 |
| CC Höganäs Bygggeramik AB - Sweden | 5,204 | (961) | 4,243 |
| OY Pukkila AB – Finland | 1,664 | (307) | 1,357 |
| Höganäs Céramiques SA – France | 912 | (154) | 758 |
| Cinca SA - Portugal | 12,320 | (1,450) | 10,870 |
| Bellegrove Ceramics Plc | 4,749 | (4,749) | - |
| Casa Reale Ceramic Inc. | 93 | (12) | 81 |
| Total | 31,502 | (8,818) | 22,684 |

The Group manufactures and sells in the principal international markets through its foreign subsidiaries.

With the acquisition last year of our Portuguese subsidiary we took an important step forward in getting into the Portuguese market also, which is giving the hoped-for results.

On the other hand, the situation in the British market and our having to reduce the size of our Bellegrove Ceramics Plc subsidiary entailed writing off the value of goodwill originally paid for this company. This decision follows on the reorganisation of the company which was initiated last year so as to put the subsidiary in a position to continue in business and re-establish a balance in its finances.

The Group's structure, however, is such as to still allow us to complete the range of products for which there is a demand, and to distribute them through our sales and distribution network which is still very strong in the various countries where we operate.

FIXED ASSETS

The movements in fixed assets and the relative provision for depreciation are shown in the following tables (millions of lire):

| | Gross balance at 31/12/99 | Increase | Decrease | Revaluations under Law 342/2000 | Other changes | Gross balance at 31/12/00 | Net balance at 31/12/00 |
|-----------------------------------|---------------------------------|---------------|----------------|---------------------------------------|------------------|---------------------------------|-------------------------------|
| HISTORICAL COST | | | | | | | |
| Land and buildings | 248,744 | 5,906 | (50) | 13,990 | (341) | 268,249 | 150,262 |
| Plant and machinery | 435,216 | 19,137 | (2,547) | | (335) | 451,471 | 99,156 |
| Industrial and sales equipment | 8,832 | 576 | (415) | | (13) | 8,981 | 1,172 |
| Other fixed assets | 47,856 | 3,903 | (5,267) | | (215) | 46,277 | 10,815 |
| Assets under construction | 1222 | (979) | | | | 243 | 243 |
| Total fixed assets | 741,870 | 28,543 | (8,279) | 13,990 | (904) | 775,221 | 261,648 |

| | Balance at 31/12/99 | Decrease | Depreciation and write-downs | Revaluations under Law 342/2000 | Other changes | Balance at 31/12/00 |
|--|------------------------|----------------|------------------------------------|---------------------------------------|------------------|------------------------|
| PROVISIONS FOR DEPRECIATION | | | | | | |
| Land and buildings | 103,655 | (27) | 8,209 | 6,371 | (221) | 117,987 |
| Plant and machinery | 328,075 | (2,407) | 26,964 | | (316) | 352,316 |
| Industrial and sales equipment | 6,127 | (415) | 2,108 | | (11) | 7,809 |
| Other fixed assets | 37,030 | (4,863) | 3,486 | | (191) | 35,462 |
| Total provisions for depreciation | 474,887 | (7,712) | 40,767 | 6,371 | (739) | 513,574 |

Other changes relate mainly to the effect of exchange rate variations.

During the year the parent company revalued two industrial buildings which it was no longer using to bring their book values into line with current values. These revalued buildings represent the entire category of assets under article 40.2.1 of Presidential Decree 917 of 22 December 1996. The revaluation method was the same for both the assets making up this category. The revaluation was made both of the historical cost (for Lire 13,989,941,707) and the depreciation provision (for Lire 6,371,001,189), thus keeping constant the period of depreciation and the depreciation rate. The revaluation was made to adjust the net book values to market level in the light of current prices for assets with similar characteristics and in the same condition. We can therefore state that the revaluations recorded, net of the relative depreciation provisions, are not higher than current values or the assets' effective worth in the light of their substance, productive capacity, and the effective possibility of using them in the company's business. Against these revaluations, an amount of Lire 6,171 million has been recorded in the *Revaluation reserve* net of Lire 1,448 million for the "substitute" tax of 19%.

Increases in the year relate to the capital outlays which were necessary to our programmes for maintaining our productive capacity.

The increase in *Plant and machinery* relates mainly to the parent company and comprises the costs of upgrading plant and infrastructures, which is necessary in the normal course, and putting into effect its programmes for maintaining productive capacity. It also comprises the costs for the installation of warehouse and transportation equipment for raw materials, setting up and connecting an electricity compartment, and transforming the glazing line from a single-fired to a porcelain process at the Maranello factory.

No financial charges have been allocated to the cost of fixed assets in the year.

There are various mortgages over the parent company's fixed assets totalling Lire 146,066 million gross securing loans with a present balance outstanding of Lire 44,387 million. There are also mortgages over the fixed assets of our Swedish subsidiary securing loans obtained by it for a total amount of Lire 16.7 billion.

Pursuant to article 10 of Law 72 of 1983, a table is presented hereunder showing the fixed assets in the consolidated financial statements at 31 December 2000 which have been revalued subject to laws or have been accounted for not in accordance with the provisions of the last paragraph of article 2425 of the Civil Code before this was modified by Legislative Decree 197 of 1991 (lire):

| Asset revalued | Revaluation Law 72/83 | Voluntary revaluation | Revaluation Law 413/91 | Revaluation Law 342/00 | Total revaluations |
|------------------------|--------------------------|--------------------------|---------------------------|---------------------------|-----------------------|
| Land and buildings | 4,149,404,061 | 9,375,000,000 | 21,688,176,870 | 13,989,941,707 | 49,202,522,638 |
| Plant and machinery | 606,540,000 | | | | 606,540,000 |
| Total | 4,755,944,061 | 9,375,000,000 | 21,688,176,870 | 13,989,941,707 | 49,809,062,638 |

NON-CURRENT FINANCIAL ASSETS

INVESTMENTS

The movements in investments are summarised below (millions of lire):

| | Balance at 31/12/99 | Acquired | Disposals | Other changes | Revaluations | Write- downs | Balance at 31/12/00 |
|--------------------------------|------------------------|--------------|----------------|------------------|--------------|-----------------|------------------------|
| Unconsolidated subsidiaries | 72 | - | (43) | - | - | - | 29 |
| Associated companies | 6,565 | 7,890 | (9,100) | - | 313 | (678) | 4,992 |
| Other companies | 2,372 | 328 | - | - | - | - | 2,699 |
| Total | 9,010 | 8,218 | (9,143) | - | 313 | (678) | 7,720 |

During the year we completed the sale of our holding in the associated company Adesital SpA after splitting it into the operating company Adesital SpA (the company sold) and the finance company Afin SpA in which Gruppo Ceramiche Ricchetti SpA holds 36.62%. This was done in accordance with the new Group strategies and resulted in a significant realisation gain which is carried with *Income from financial transactions*.

In order to carry through the sale, we had to acquire from the related company Kabaca SpA a 50.25% share in order to put together the minimum share package for the purpose of the negotiations. This purchase, which was neutral from a profits point of view, was made on the basis of the final sales price defined with the other party and was effected through exchanging 3,695,000 Ricchetti shares which had been held in portfolio. The transaction was made at normal market conditions.

UNCONSOLIDATED SUBSIDIARIES

Details follow:

| Company | Registered office | % holding - direct or indirect | Equity value (millions of lire) | Book value (millions of lire) |
|--------------------------------------|----------------------|-----------------------------------|---------------------------------------|-------------------------------------|
| Gruppo Ceramiche Ricchetti España SL | Spain | 100.00 | 29 | 29 |
| Cinca GmbH | Germany | 100.00 | (234) | - |
| Total | | | | 29 |

Cinca GmbH is controlled directly by Cinca SA (Portugal) and Gruppo Ceramiche Ricchetti España SL by Gruppo Ceramiche Ricchetti SpA.

These holdings are recorded on the equity method, which in the case of Cinca GmbH entailed setting up a provision for risks on shareholdings of Lire 234 million which is carried with *Provisions for liabilities and charges*.

ASSOCIATED COMPANIES

Details follow:

| Company | Registered office | Share capital (Currency/thd) | Total equity (Lire/thd) | Profit (Loss) (Lire/thd) | % held | Value on equity method (Lire/thd) |
|------------------|-------------------|------------------------------|-------------------------|--------------------------|--------|-----------------------------------|
| Afin SpA | Modena | Lire/thd 2,000 | 2,500 | - | 36.62 | 3,082 |
| IDB S.A.M. | Montecarlo | FF/thd 5 | 150 | (1,414) | 33.12 | - |
| Finmill Srl | Bologna | Lire/thd 7,050 | 7,125 | 11 | 33.63 | 1,904 |
| T.C. Srl | Reggio Emilia | Lire/thd 21 | (214) | (236) | 25.00 | - |
| Top Campionature | Modena | Lire/thd 20 | (38) | (59) | 30.00 | 6 |
| Habita Srl | Ravenna | Lire/thd 193.6 | 194 | - | 33.33 | - |
| Total | | | | | | 4,992 |

The financial statement data are those of the latest approved financial statements.

In the case of Afin SpA, the equity value shown is the amount attributed to this company when it was split during the year.

Specific provisions for risks on shareholdings have been set up in respect of the holdings in T.C. Srl and Habita Srl amounting to Lire 54 million and Lire 38 million respectively, which are carried with *Provisions for liabilities and charges*.

OTHER COMPANIES

Details follow:

| Company | % held | Book value (millions of lire) |
|-------------------------------------|--------|-------------------------------|
| Iatli SpA | 0.07 | 5 |
| Modena Golf Country Club | 0.01 | 72 |
| Caaf dell'Industria Emilia Centrale | 0.01 | 10 |
| Gruppo Elba SpA | 0.82 | 40 |
| Finelba Ceramiche SpA | 9.97 | 1,400 |
| La Guglia SpA | 1.34 | 109 |
| Eurofinanziaria Srl | 0.33 | 10 |
| Vanguard Ceramiche Srl | 13.414 | 117 |
| San Valentino Lago Srl | 0.06 | 25 |
| Mirabello 2000 SpA | 1.26 | 120 |
| FinVolley Srl in liquidation | 7.262 | 0 |
| Cer. Clusters S.l. | 0.525 | 203 |
| Selicenergia | - | 7 |
| SA Monthès l'Entrepot | 5.00 | 29 |
| Cincominas - Portugal | 12.50 | 290 |
| Other minor companies - Portugal | - | 219 |
| Other minor companies - Finland | - | 32 |
| Betre AB – Sweden | 13.30 | 6 |
| Other minor companies - Sweden | - | 5 |
| Total | | 2,699 |

ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES

Details follow (lire):

| Company | 31/12/99 | Increase | Decrease | 31/12/00 |
|--------------|----------|----------------------|----------|----------------------|
| Afin SpA | - | 2,474,400,000 | | 2,474,400,000 |
| Total | - | 2,474,400,000 | | 2,474,400,000 |

This represents an interest-bearing loan.

OTHER ACCOUNTS RECEIVABLE

Other accounts receivable carried with non-current financial assets relate to the tax credit for advances paid by the parent company and the Italian subsidiaries on the taxes due on the provision for staff termination pay pursuant to Law 140 of 28 May 1997.

OTHER SECURITIES

The movements in other securities in the year are as follows (millions of lire):

| | Balance at 31/12/99 | Increase | Decrease | Other changes | Balance at 31/12/00 |
|------------------|------------------------|----------|----------|------------------|------------------------|
| Other securities | 12,383 | 6,110 | 10,013 | - | 8,480 |

Other securities comprise amongst other items, 1,125 convertible bonds of Lire 1,000,000 each for a total nominal value of Lire 1,125 million relating to a bond loan issued by the related company Kabaca Srl. It bears 6 per cent per annum with a duration up to 2027 although it may be refunded in advance of this date. These bonds carry the option for their conversion, as from 1999, into Kabaca Srl ordinary shares at one share for each bond. At 31 December 2000 interest receivable for Lire 67.5 million had matured thereon, which is recorded with *Other financial income from non-current securities* in the consolidated profit and loss account.

The decrease in the year relates to the disinvestment effected by our subsidiary La Generali Servizi Srl from Azimut Funds for Lire 10 billion. The year-end balance also includes securities of our Evers subsidiary for about Lire 134 million which are pledged as security.

Other movements represent the effects of exchange rate variations, which were nil in the year.

INVENTORIES

Inventories comprise (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|----------------|----------------|-----------------|
| Raw materials, supplies and consumable stores | 18,342 | 18,278 | 6 |
| Work in progress and semifinished products | 6,493 | 5,041 | 1,452 |
| Finished products and merchandise | 180,281 | 204,159 | (23,878) |
| Payments on account | - | 70 | (70) |
| Total | 205,116 | 227,548 | (22,432) |

Inventories have been valued at weighted average cost, the same method as used in the preceding year. The parent company inventories, which are valued in its accounts at LIFO, a method commonly used in Italy, have been valued at weighted average cost in the consolidated financial statements. This is the method that is most in line with international practice and is accordingly used by the foreign subsidiaries of the Group.

The value of inventories as determined above does not differ materially from current cost.

The amounts are shown net of provisions for obsolete or slow-moving items relating to raw materials and finished goods.

Inventories are free from pledges and other encumbrances.

The decrease in inventories is mainly due to the lower year-end inventory levels as compared with the preceding year, and write-downs made by the parent company in accordance with its new sales strategies. These were connected with the mergers effected in the preceding year that led to abandoning the manufacture of certain products no longer considered to be strategic.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at net realisable value. Net of the provision for doubtful debts they total Lire 210,547 million (Lire 201,286 million at 31 December 1999), as follows (millions of lire):

CUSTOMERS ACCOUNTS RECEIVABLE

(Millions of lire)

| | 31/12/00 | 31/12/99 | Change |
|--|----------------|----------------|--------------|
| Customers' accounts - gross | 193,630 | 190,503 | 3,127 |
| Provision for doubtful debts | (6,262) | (6,670) | 408 |
| Total customers' accounts - net | 187,368 | 183,833 | 3,535 |

The movements on the provision for doubtful debts are shown in the following table:

| Movements | Millions of lire |
|------------------------------------|------------------|
| Balance at 31-12-1999 | 6.670 |
| Utilisation in the year | (1.787) |
| Provision made in the year | 1.401 |
| Effect of exchange rate variations | (22) |
| Balance at 31-12-00 | 6.262 |

The increase in customers accounts receivable is more or less in line with the year's increase in turnover.

ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES

Details follow (lire):

| Company | 31/12/00 | 31/12/99 | Change |
|----------------------|--------------------|--------------------|-------------------|
| T.C. Srl | 48,295,628 | 105,750,000 | (57,454,372) |
| Habita Srl | 77,981,590 | | 77,981,590 |
| Top Campionature Srl | 25,323,722 | 25,323,722 | - |
| Adesital SpA | - | 252,301 | (252,301) |
| Total | 151,600,940 | 131,326,023 | 20,274,917 |

Accounts receivable from associated companies result from commercial transactions made at normal market conditions. They are due within one year.

ACCOUNTS RECEIVABLE FROM THE PARENT COMPANY AND ITS SUBSIDIARIES

Details follow (lire):

| Company | 31/12/00 | 31/12/99 | Change |
|--------------------------------------|--------------------|----------------------|------------------------|
| Fincisa SpA | - | 1,627,479,000 | (1,627,479,000) |
| B.I. Beni Immobili | 500,000,000 | 610,002,500 | (110,002,500) |
| Target Srl | 50,529,710 | 37,093,428 | 13,436,282 |
| Mythos Srl | 68,520,588 | 49,861,211 | 18,659,377 |
| CISF Ceramiche Ind. Sassuolo Fiorano | 70,920,000 | 164,082,995 | (93,162,995) |
| Kabaca Srl | 66,385,500 | 59,062,500 | 7,323,000 |
| Total | 756,355,798 | 2,547,581,634 | (1,791,225,836) |

The amount owing by Fincisa SpA at 31 December 1999 relates to the VAT tax credit which was ceded within the framework of the arrangements for settling the Group companies' liability for this tax. These arrangements are no longer applied as from 2000.

The account receivable from Kabaca Srl relates to the extent of Lire 59,062,500 to interest accrued on the bond loan which was still to be collected at the year-end.

Accounts receivable from the other subsidiaries of the parent company result from commercial transactions made at normal market conditions. They are due within one year.

OTHER ACCOUNTS RECEIVABLE

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|---------------|---------------|--------------|
| Tax credits for: | | | |
| VAT | 5,958 | 3,540 | 2,418 |
| <i>IRPEG/IRAP</i> and other income taxes | 3,458 | 1,699 | 1,759 |
| Deferred tax assets | 1,411 | 488 | 923 |
| Owing by social security institutions | 188 | 118 | 70 |
| Owing by employees | 914 | 445 | 469 |
| Suppliers' debit balances | 2,980 | 1,995 | 985 |
| Miscellaneous | 3,419 | 2,750 | 669 |
| Total other accounts receivable due within one year | 18,328 | 11,035 | 7,293 |
| VAT tax credits. | 599 | 396 | 203 |
| <i>IRPEG</i> and other tax credits | 1,980 | 2,004 | (24) |
| Owing by employees | 47 | 52 | (5) |
| Guarantee deposits | 935 | 1,194 | (259) |
| Miscellaneous | 382 | 92 | 290 |
| Total other accounts receivable due after one year | 3,943 | 3,738 | 205 |
| Total other accounts receivable | 22,272 | 14,774 | 7,498 |

Other accounts receivable comprise, in general, suppliers' debit balances, amounts owing by employees, guarantee deposits and tax credits. The following in particular should be noted:

- Tax credits for VAT: these relate to the amount accrued at the year-end which will be offset in the subsequent year; the portion recoverable after one year relates to amounts requested to be refunded in preceding years together with the total amount of interest accrued.
- Tax credits for *Irpeg*, *Irapp* and other income taxes: the amount due after one year is basically composed of: (a) the amount paid in 1998 by the absorbed company Industrie

Ceramiche Cisa Cerdisa SpA in respect of the provisional bill of about Lire 767 million notified as being due for taxes pursuant to article 15 of Presidential Decree 602 of 1973 for assessments received for fiscal years 1990 and 1992; and (b) the amount paid in 1996 by Gruppo Ceramiche Ricchetti SpA against the provisional bill served in 1995 for taxes of about Lire 768 million pursuant to the same article. These assessments are described in the note on *Provisions for liabilities and charges*, to which reference should be made. During the year, payments on account were made for *Irap* tax totalling Lire 5,432 million. These have been directly deducted from the total amount of Lire 5,441 million due for *Irap* which is carried with *Taxes payable*. Payments were also paid on account of *Irpeg* totalling Lire 3,972 million - these have been directly deducted from the *Irpeg* liability of Lire 2,565 million.

- Deferred tax assets: these relate to the taxes paid on write-downs of closing finished products inventory write-downs and on the provision for foreign exchange losses which were not allowable for tax purposes in the years in question.
- Suppliers' debit balances: of these, Lire 1,260 million relates to advance payments made to suppliers in the normal course of business and Lire 1,468 million to credit notes to be received for quantity discounts on energy consumption and other minor items.
- Amounts owing by employees: these include the Foncer Supplementary Pension Fund which the parent company will recover in six instalments as from February 2001.
- Guarantee deposits: these relate to guarantees paid in connection with contracts, particularly for the supply of electricity.

Other accounts receivable also include payments made on the basis of up-dated actuarial estimates relating to employee pension funds which, as is known, are used by foreign Group companies in connection with pension plans set up under local or company regulations.

CURRENT FINANCIAL ASSETS

| Description | 31/12/00 | 31/12/99 | Change |
|------------------|---------------|--------------|---------------|
| Own shares | 2,221 | 4,214 | (1,993) |
| Other securities | 49,489 | 321 | 49,168 |
| Total | 51,710 | 4,535 | 47,175 |

The Shareholder's Meeting of 11 December 1997 authorised the Board of Directors to purchase the parent company's own shares on the automated stock exchange through authorised brokers. On 21 December 2000 the Shareholders' Meeting renewed this authorisation for a further 18 months.

At 31 December 2000, 975,000 own shares of nominal value Lire 500 each were carried in the balance sheet for a total purchase value of Lire 2,221.5 million. As a result of the trend in the listed price in the first quarter of 2001, the value of these shares dropped about Lire 271 million under their book value. The fall in the value of own shares after the balance sheet date is considered to be an exceptional event, in the light of the high volatility of the market, and accordingly, if it is confirmed, it will be treated as a matter regarding the financial statements for 2001.

The investment in own shares is covered by a specific reserve of the same amount carried with equity.

Dealing in own shares generated a gain of about Lire 411 million which has been classified with *Other financial income* in the profit and loss account.

Securities recorded in the balance sheet at 31 December 2000 relate to the following: shares held by our subsidiaries United Tiles SA (1,900,000 Mediobanca shares and 150,000 Assicurazioni Generali shares) for Lire 42,722 million, C.F.C. Compagnie Financière Cer. SA for Lire 427 million; and La Generale Servizi Srl for Lire 4,879 million; Government Bonds for Lire 321 million maturing in 2007 held by our subsidiary Tilenet Srl and an

investment of Lire 1,140 million maturing on 31 January 2001 held by our subsidiary Oy Pukkila AB.

It should be noted that the listed shares held by United Tiles SA are carried in the balance sheet at purchase price which is Lire 14,382 million under market value at 31 December 2000.

CASH AND CASH EQUIVALENTS

| | 31/12/00 | 31/12/99 | Change |
|------------------------------|---------------|---------------|---------------|
| Bank deposits | 91,013 | 57,779 | 33,234 |
| Post office current accounts | 536 | 315 | 221 |
| Cheques | 82 | 64 | 18 |
| Cash and cash items on hand | 179 | 188 | (9) |
| Total | 91,810 | 58,346 | 33,464 |

The above items reflect the liquid funds on hand at the year-end.

The increase is mainly due to the temporary inflow of cash resulting from our subsidiary C.F.C. Compagnie Financière Cér. having disposed of share investments, as well as a number of loans taken on by the parent company at the year-end.

PREPAYMENTS AND ACCRUED INCOME

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|--------------|--------------|------------|
| Prepaid rent and hiring charges | 1,419 | 1,082 | 337 |
| Prepaid promotion expenses | 94 | 182 | (88) |
| Prepaid insurance | 771 | 379 | 392 |
| Other minor prepayments and accrued income | 1,128 | 1,166 | (38) |
| Total | 3,412 | 2,809 | 603 |

LIABILITIES AND EQUITY

EQUITY

Reference should be made to the attached *Consolidated Statement of Changes in Shareholders' Equity* for information as to the movements in the year in equity accounts.

Share capital at 31 December 2000 amounts to Lire 93,280 million, fully subscribed and paid, consisting of 186,559,792 shares of face value Lire 500 each. It includes shares which were issued by drawing on the *Revaluation reserve* in 1996.

Other reserves include (millions of lire) :

| | Balance at 31/12/00 | Balance at 31/12/99 |
|---|------------------------|------------------------|
| Extraordinary reserve | | 498 |
| Reserve arising from tax-facilitated non-cash investments | 17,862 | 17,862 |
| Reserve under Law 516/82 | 121 | 121 |
| Consolidated profits brought forward | 42,490 | 34,689 |
| Merger surplus | 15,564 | 18,933 |
| Capital grants reserve | 5,198 | 5,198 |
| Total other reserves | 81,235 | 77,301 |

As indicated in the section dealing with *Intangible assets*, the parent company revalued two

buildings which were no longer in use. The revaluation gain was taken to a *Revaluation reserve* pursuant to Law 342 of 2000, for Lire 6,171 million net of the 19% “substitute” tax amounting to Lire 1,448 million.

The *Reserve for own shares in portfolio*, a restricted reserve which was created by charging the extraordinary reserve, has been brought up to equal the amount of own shares held by our organisation.

The *Translation reserve*, which stems from translating foreign currency financial statements, is Lire 3,877 million negative. It arose on the consolidation of the foreign companies as follows: Lire 1,017 million negative in 1995; Lire 4,169 million negative in 1996; Lire 1,311 million negative in 1998; Lire 2,894 positive in 1999; and Lire 36 positive in 2000.

The reconciliation between shareholders’ equity and net profit for the year as shown in the parent company and in the consolidated financial statements is presented hereunder (millions of lire):

| | Share capital and reserves | Net profit for 2000 | Total shareholders' equity |
|--|-------------------------------|------------------------|----------------------------------|
| Shareholders’ equity in the financial statements of the parent company Gruppo Ceramiche Ricchetti SpA | 222,514 | 5,955 | 228,469 |
| Difference between the equities of consolidated subsidiaries and their carrying values in the books of the parent company net of tax effects | 25,924 | 16,290 | 42,214 |
| Reversal of intercompany gains on securities | | (14,365) | (14,365) |
| Reversal of dividends | | (13,685) | (13,685) |
| Valuing unconsolidated subsidiaries and associated companies on the equity method | (1,319) | 8 | (1,311) |
| Adjustment for depreciation and amortisation charges and relative provisions | 25,434 | (1,879) | 23,555 |
| Recording deferred tax liabilities on net timing differences and consolidation adjustments | (6,981) | 532 | (6,449) |
| Other minor items relating mainly to the elimination of intercompany profits included in inventories | (4,446) | 423 | (4,023) |
| Total pertaining to the Group | 261,126 | (6,721) | 254,405 |
| Total pertaining to minority interests | 778 | 39 | 817 |
| Total shareholders' equity | 261,904 | (6,682) | 255,222 |

The shareholders’ equities of the consolidated companies include reserves in a tax-suspended status. No taxes have been provided in respect of these reserves as it is not considered at present that any action will be taken that would render them subject to taxes.

PROVISIONS FOR LIABILITIES AND CHARGES

A breakdown of the provisions for liabilities and charges is presented hereunder (millions of lire):

| | Balance at 31/12/99 | Increase | Decrease | Other changes | Balance at 31/12/00 |
|---|------------------------|-------------|----------------|------------------|------------------------|
| Provision for agents’ severance indemnities | 4,482 | 576 | (726) | | 4,332 |
| Provision for pensions | 5,292 | 298 | | (106) | 5,484 |
| Deferred tax provision | 11,550 | 170 | (1,315) | (23) | 10,382 |
| Provision for product warranties | 231 | 21 | (106) | | 146 |
| Provision for foreign exchange losses | 6 | 498 | (6) | | 498 |
| Provision for risks on litigation in course | 20 | 275 | | (12) | 283 |
| Other minor provisions | 943 | 95 | (188) | (7) | 843 |
| Total | 22,524 | 1933 | (2,341) | (148) | 21,968 |

Other changes relate to the effect of exchange rates variations.

The provision for agents' severance indemnities represents a reasonable estimate of liabilities the Group might incur on the termination of agency relationships. It relates almost entirely to the parent company.

Deferred taxes arise as the result of temporary timing differences between income as recorded in the consolidated financial statements and that recognised for tax purposes. They relate mainly to accelerated depreciation charged in the accounts of consolidated subsidiaries which, being of a purely fiscal nature, is reversed in the consolidated financial statements in accordance with Group accounting principles. In calculating them, account has been taken of timing differences also on tax losses within the limits of the amount which is estimated to be recoverable to a reasonable degree of certainty.

During the course of 1995 Gruppo Ceramiche Ricchetti SpA was served an assessment relating to the 1991 spin-off of a business segment of the Fiorano factory. Additional taxes totalling Lire 2,106 million were requested, as well as penalties of the same amount. The Modena Provincial Tax Commission issued a judgement on 9 November 1998 reducing the demand from the Sassuolo (Modena) District Direct Tax Office to Lire 1,096 million, still with penalties of the same amount. The company decided to appeal to the Regional Commission against this judgement.

These consolidated financial statements do not include any provision for this potential tax payable because a number of shareholders have guaranteed to cover the company against any costs that might arise from an unfavourable outcome of this issue.

Moreover, during May and July 1997 the Company was subjected to a general tax inspection by the tax police for the tax years 1995 and 1996. No tax assessment has as yet been received from the relative Direct Taxes and VAT offices following this inspection. Their final conclusions report dated 24 July 1997 contested issues relating to direct taxes, principally in connection with the write-down of certain shareholdings. It is not considered probable that any significant liabilities will emerge from these issues and this is supported by professional advice sought in this connection.

Industrie Ceramiche Cisa Cerdisa SpA, which was absorbed in the preceding year, received in past financial years four different assessments for the tax periods 1990, 1991, 1992 and 1993 with contestations on direct taxes that were substantially similar for the four years in question. Appropriate appeals against the assessments were presented, which have already been considered by the Modena Provincial Tax Commission for the tax years 1990 and 1991. The Commission partly accepted the objections the company had presented and significantly reduced the amount originally claimed by the tax office. As a consequence of these decisions at first instance, taxes of about Lire 767 million have been notified as being due (provisionally, pursuant to article 15 of Presidential Decree 602 of 1973) - see the note on *Other accounts receivable*.

The determination of this amount was greatly influenced by significant tax disallowances, declared as being typical for all the years in question, which the Tax Commission had confirmed when discussing the year 1990, as opposed to what emerged in the ensuing debate on the years 1991, 1992 and 1993 when the company's objections were accepted. In the light of the above, it is considered unlikely that any material charge to the company will arise out of the issue and accordingly the taxes notified and paid have been recorded with *Other accounts receivable* since they are considered to be recoverable in the light of the favourable judgment handed down at first instance.

During 2000 Gruppo Ceramiche Ricchetti SpA was served a new assessment (relating to the former Industrie Ceramiche Cisa Cerdisa which has now been absorbed) for *Ilor* and *Irpeg* taxes for 1994. Since the company intends to appeal against this assessment, considering that almost all the disallowances are the same as those notified in the previous assessments against which our objections have been substantially accepted by the Tax Commission dealing with the appeal, no provision has been recorded with regard to the

new assessment in that it is considered that no significant liabilities will emerge from the issue.

Other minor provisions include about Lire 234 million to cover the losses incurred by our unconsolidated subsidiary Cinca GmbH which has posted an equity deficit. They also comprise provisions relating to our associated companies T.C. Srl and Habita Srl, as indicated in the note on such companies.

PROVISION FOR STAFF TERMINATION PAY

The movements on the provision for staff termination pay are shown hereunder

| | Millions of lire |
|----------------------------------|---------------------|
| Balance at 31/12/99 | 33,471 |
| Increase in the year | 6,989 |
| Termination pay paid in the year | (6,117) |
| Other changes | (16) |
| Total | 34,327 |

This provision covers the entire liability of the Group for termination pay to employees on the payroll at 31 December 2000 calculated on the basis of the law and the related labour contracts.

ACCOUNTS PAYABLE

These total Lire 562,690 million (Lire 516,896 million at 31 December 2000). An analysis follows (millions of lire):

BONDS

| | 31/12/00 | 31/12/99 | Change |
|---|--------------|--------------|----------|
| Balance still to be paid of bond loan which matured in 1994 | 62 | 62 | - |
| ICCC 95 - 2000 variable-rate bonds | 5,000 | 5,000 | - |
| Total bond loans | 5,062 | 5,062 | - |

Bonds include a 1995 issue by Industrie Ceramiche Cisa Cerdisa SpA of nominal value Lire 5 billion at a variable interest rate, indexed to Prime Rate Italy, maturing in 2000. The *balance still to be paid*, of Lire 61,866,000, represents the remainder of bonds, originally issued by Industrie Ceramiche Cisa Cerdisa SpA which matured in 1994, but for which no request for refund has yet been received from the bondholders concerned.

AMOUNTS OWING TO BANKS - DUE WITHIN ONE YEAR

(Millions of lire)

| | 31/12/00 | 31/12/99 | Change |
|--------------------------------------|----------------|---------------|---------------|
| Current accounts | 79,085 | 15,785 | 63,300 |
| Export loans | 2,047 | 10,257 | (8,210) |
| Short-term loans | 22,182 | 30,065 | (7,883) |
| Short-term portion of mortgage loans | 71,219 | 33,595 | 37,624 |
| Total short-term bank debt | 174,533 | 89,702 | 84,831 |

The level of bank debt has to a large extent been affected by loans taken out by our Luxembourg subsidiary United Tiles for the purchase of equity securities, for about Lire 61 billion.

AMOUNTS OWING TO BANKS - DUE AFTER ONE YEAR

Details and movements for 2000 are presented hereunder:

| | Millions of lire |
|---|------------------|
| Balance at 31 December 1999 | 193.335 |
| Increase | 52.301 |
| Transfer of short-term portion to amounts due within one year | (65.214) |
| Other movements | (168) |
| Balance at 31 December 2000 | 180.254 |

The level of amounts owing to banks at medium-term has been affected by the following loans which were taken out during 2000:

- Lire 20 billion from Banca di Roma to be refunded in one instalment on 25 January 2002;
- Lire 10 billion from San Paolo Imi to be refunded in eight instalments falling due on 15 June and 15 December of each year;
- Lire 10 billion from Banco di Napoli to be refunded in one instalment on 13 June 2002.

In addition, medium-term bank borrowings include a loan of originally Lire 60 billion received in 1999 from MB Finstruttura in four tranches of Lire 15 billion each, refundable in six half-yearly instalments, as well as another loan of originally Lire 14 billion received 1998 repayable in quarterly instalments starting on 30 September 2000 and going up to 30 June 2005.

Debt totalling Lire 44,387 million is secured by mortgages over the properties coming in from the merger with Industrie Ceramiche Cisa Cerdisa SpA; in addition, with regard to the subsidiaries, it should be noted that there was an increase in La Generale Servizi Srl's debt resulting from a mortgage loan taken out by it for Lire 2,750 million.

The debt of the Swedish and Finnish subsidiaries is guaranteed by pledges arranged locally.

Debt repayable after five years amounts to Lire 9,748 million.

Other movements reflect the effects of exchange rate variations.

AMOUNTS OWING TO OTHER LENDERS

These relate mainly to a concessionary loan to finance "technological innovation" pursuant to Law 46 of 1982 received by the parent company from the Ministry of Trade and Commerce. The movements in the year were as follows:

| | Millions of lire |
|------------------------------|------------------|
| Balance at 31/12/99 | 3,249 |
| Repayments | (592) |
| Other movements | (1) |
| Balance at 31/12/00 | 2,656 |
| Comprising: | |
| Short-term | 967 |
| Long-term due within 5 years | 1,005 |
| Long-term due after 5 years | 684 |

This caption also includes the balance owing at the year-end on the leasing contracts taken out by our British subsidiary Bellegrave Ceramics Plc.

ACCOUNTS PAYABLE TO SUPPLIERS

(Millions of lire)

| Due date | 31/12/00 | 31/12/99 | Change |
|-----------------|-----------------|-----------------|-----------------|
| Within one year | 139,151 | 157,447 | (18,296) |
| After one year | | 1,850 | (1,850) |
| Total | 139,151 | 159,297 | (20,146) |

Accounts payable to suppliers relate to transactions falling within the normal activities of the Group. The decrease is mainly in respect of our British subsidiary Bellegrave which had lower purchases in the year. There are no accounts payable after five years.

ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES

(Millions of lire)

| Company | 31/12/00 | 31/12/99 | Change |
|----------------------|-----------------|-----------------|---------------|
| Adesital SpA | | 192 | (192) |
| Ravenna Mill SpA | 535 | 404 | 131 |
| Fin Mill SpA | 28 | | 28 |
| Habita Srl | 35 | 45 | (10) |
| Top Campionature Srl | 306 | 345 | (39) |
| Total | 904 | 986 | (82) |

These relate to commercial transactions made at normal market conditions. They are due within one year.

ACCOUNTS PAYABLE TO PARENT COMPANY AND ITS SUBSIDIARIES

(Millions of lire)

| Company | 31/12/00 | 31/12/99 | Change |
|--|-----------------|-----------------|----------------|
| Fincisa SpA | | 4,000 | (4,000) |
| CISF Ceramiche Ind.li Sassuolo e Fiorano | 9,027 | 8,999 | 28 |
| Beni Immobili SpA | 359 | | 359 |
| Mythos Srl | 659 | 885 | (226) |
| Target Srl | 1,053 | 1,163 | (110) |
| Vanguard Ceramiche Srl | | 138 | (138) |
| Total | 11,098 | 15,185 | (4,087) |

The accounts owing to the parent company and its subsidiaries relate to commercial transactions made at normal market conditions, and to loans. The latter consist of an interest-bearing loan of Lire 9 billion to CISF Ceramiche Industriali di Sassuolo e Fiorano taken out by our subsidiary La Generale Servizi Srl. Interest of Lire 226 million, charged to *Financial charges*, was paid on this loan and on another to Fincisa SpA which was refunded in June 2000.

TAXES PAYABLE

Taxes payable reflect the total tax liability of consolidated companies, as follows (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|---------------|---------------|----------------|
| Current taxes | 315 | 9,951 | (9,636) |
| <i>IRPEF</i> | 6,260 | 5,954 | 306 |
| VAT | 2,844 | 2,756 | 88 |
| “Substitute” tax on revaluations under Law. 342 of 2000 | 1,448 | | 1,448 |
| Other taxes payable | 254 | 1,178 | (924) |
| Total | 11,121 | 19,839 | (8,718) |

The above amount of Lire 1,448 million relates to the 19% tax payable on the revaluation made in the year of the parent company’s buildings, as permitted by Law 342 of 21 November 2000.

The decrease is largely due to the lower tax charge for the year and higher on-account payments made during the year by the parent company.

ACCOUNTS PAYABLE TO SOCIAL SECURITY INSTITUTIONS

These amount to Lire 8,234 million (Lire 7,122 million at 31 December 1999). The increase relates basically to the parent company.

OTHER ACCOUNTS PAYABLE

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|-------------------------------------|---------------|---------------|--------------|
| Amounts owing to employees | 16,224 | 15,016 | 1,208 |
| Dividends payable | 3,676 | 34 | 3,642 |
| Credit notes to be issued | 7,242 | 5,689 | 1,553 |
| Customers credit balances | 965 | 1,264 | (299) |
| Other minor items | 1,379 | 935 | 444 |
| Total other accounts payable | 29,486 | 22,938 | 6,548 |

Amounts owing to employees relate mainly to pay accrued up to 31 December 2000.

Credit notes to be issued relate almost entirely to premium discounts which the parent company and subsidiaries have granted to their customers.

Dividends payable are in respect of dividends resolved at the parent company’s 24 June 2000 annual general meeting which at the year-end had not yet been collected by the shareholders concerned.

Accounts payable, which are all due within one year, are valued at nominal value. They are not secured over the Group’s assets.

ACCRUED CHARGES AND DEFERRED INCOME

Accrued charges and deferred income comprise (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|--------------|--------------|--------------|
| Accrued interest | 3,448 | 1,115 | 2,333 |
| Accrued insurance premiums | 63 | 64 | (1) |
| Rents payable | 34 | 54 | (20) |
| Other | 863 | 977 | (114) |
| Total accrued charges and deferred income | 4,408 | 2,210 | 2,198 |

The increase is due to loan interest.

CONSOLIDATED MEMORANDUM ACCOUNTS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|---------------|---------------|---------------|
| Guarantees given to subsidiaries | - | 659 | (659) |
| Guarantees given to third parties | 12,375 | 8,811 | 3,564 |
| Outstanding leasing commitments | 143 | 363 | (220) |
| Goods with third parties | 48 | 48 | - |
| Mortgages | 27,850 | 16,713 | 11,137 |
| Total consolidated memorandum accounts | 40,416 | 26,594 | 13,822 |

Guarantees given to third parties include a bank guarantee of Lire 1,850 million issued by Banca Popolare dell'Emilia Romagna on our behalf to secure a loan received by our subsidiary Cotto Arena Srl connected with the *Stilgres - Tilegres* matter, and a guarantee of Lire 607 million covering the SIMEST concessionary loan which is carried with *Amounts owing to banks*.

The remaining guarantees, amounting to about lire 2,126 million, were issued by banks on our behalf mainly in favour of Government institutions in respect of VAT refunds (about Lire 906 million), for waste removal and credit cards.

The *mortgages* were taken out to cover loans made to our subsidiaries CC Höganäs Sweden, Oy Pukkila AB, and La Generale Servizi Srl. The amount indicated relates to the original contract value.

It should finally be noted that an interest rate swap contract has been made to cover interest rate fluctuations on existing loans. The differential matured and realised at the year-end has been recorded on an accruals basis.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Information on and details of the major components of the consolidated profit and loss account are given hereunder together with comparative figures for 1999.

REVENUES FROM SALES AND SERVICES

A breakdown of revenues by geographical area is given in the following table (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---------------|----------------|----------------|---------------|
| Italy | 149,488 | 144,059 | 5,429 |
| Europe | 473,775 | 485,893 | (12,118) |
| North America | 52,279 | 44,197 | 8,082 |
| South America | 1,923 | 2,273 | (350) |
| Asia | 34,720 | 26,871 | 7,849 |
| Australia | 9,521 | 6,332 | 3,189 |
| Africa | 4,137 | 3,277 | 860 |
| Total | 725,843 | 712,902 | 12,941 |

Sales volumes for 2000 were 44.9 million square metres compared with 45.5 million square metres in 1999.

Revenues from sales and services in 2000 rose 2% over 1999 despite the heavy drop in the sales of our British subsidiary Bellegrave Ceramics Plc.

OTHER INCOME

Other income relates mainly to miscellaneous out-of-period gains and cost recoveries, gains on asset disposals, rent income, insurance refunds including damages, and other income of an ordinary nature. The amount thereof is more or less in line with the preceding year.

PRODUCTION COSTS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|----------------|----------------|---------------|
| Purchases of raw materials, supplies and consumable stores | 230,034 | 263,619 | (33,585) |
| Cost of services | 199,137 | 171,424 | 27,713 |
| Rents, leasing and similar costs | 10,544 | 10,245 | 299 |
| Salaries and wages | 130,411 | 132,341 | (1,930) |
| Social security | 40,616 | 39,484 | 1,132 |
| Staff termination pay | 6,989 | 6,476 | 513 |
| Retirement benefits and similar obligations | 747 | 2,603 | (1,856) |
| Other payroll costs | 3,339 | 1,410 | 1,929 |
| Amortisation of intangible assets | 8,275 | 9,583 | (1,308) |
| Depreciation of fixed assets | 40,767 | 41,226 | (459) |
| Other non-current asset write-downs | 4,748 | 1,583 | 3,165 |
| Write-downs of current receivables | 1,401 | 1,290 | 111 |
| Change in inventory of raw materials | 14,943 | (7,174) | 22,117 |
| Provisions for liabilities and charges | 8 | 22 | (14) |
| Other provisions | 395 | 230 | 165 |
| Miscellaneous operating costs | 8,165 | 7,234 | 931 |
| Total | 700,519 | 681,595 | 18,924 |

PURCHASES OF RAW MATERIALS, SUPPLIES AND CONSUMABLE STORES

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|----------------|----------------|-----------------|
| Purchases of raw materials | 126,288 | 127,642 | (1,354) |
| Purchases of merchandise and finished products | 94,611 | 128,528 | (33,917) |
| Freight on purchases | 9,135 | 7,449 | 1,686 |
| Total | 230,034 | 263,619 | (33,585) |

Purchases of merchandise and finished products include purchases for resale of ceramic products not produced by the Group and purchases of construction and tile-laying materials by some foreign subsidiaries.

COST OF SERVICES

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|-----------------|-----------------|---------------|
| Gas and electricity | 58,131 | 40,391 | 17,740 |
| External production | 20,327 | 18,887 | 1,440 |
| Commissions and related charges | 24,637 | 22,017 | 2,620 |
| Maintenance and repairs | 20,331 | 20,035 | 296 |
| Cleaning down by outside firms | 1,703 | 1,501 | 202 |
| Sales freight | 20,003 | 20,075 | (72) |
| Insurance | 2,472 | 2,523 | (51) |
| Trade fares and exhibitions | 4,083 | 2,993 | 1,090 |
| Customer incentives | 548 | 742 | (194) |
| Advertising and marketing costs | 11,048 | 10,485 | 563 |
| Directors' compensation | 2,370 | 2,807 | (437) |
| Statutory auditors' fees | 505 | 455 | 50 |
| Administrative, sales and technical consultants | 8,463 | 8,057 | 406 |
| Travel expense refunds | 5,109 | 5,937 | (828) |
| Miscellaneous staff costs | 719 | 538 | 181 |
| Postages and telephones | 4,672 | 4,287 | 385 |
| Other minor expenses | 14,016 | 9,694 | 4,322 |
| Total | 199,137 | 171,424 | 27,713 |

The significant increase in gas and electricity costs caused by the well known rise in the crude oil prices hit, to varying degrees, all the Group's production plants in Italy and abroad.

The rise in sales freight is largely the result of the increase in sales deriving from the Optiroc acquisition by our Swedish subsidiary.

Advertising and marketing costs rose, whereas customer incentives dropped, since as from 1999 the parent company reduced costs on organising meetings and trips for customers, changing over more to the traditional forms of advertising (brochures and leaflets).

The directors and statutory auditors of Gruppo Ceramiche Ricchetti SpA also receive compensation from other consolidated Group companies, over and above what they receive from the parent company itself.

RENTS, LEASING AND SIMILAR COSTS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--------------------------|-----------------|-----------------|---------------|
| Rents | 8,028 | 8,253 | (225) |
| Hiring and leasing costs | 2,481 | 1,948 | 533 |
| Royalties | 35 | 44 | (9) |
| Total | 10,544 | 10,245 | 299 |

These relate mainly to rents paid by the parent company to the related companies Ceramiche Industriali di Sassuolo e Fiorano SpA and Beni Immobili SpA. They also comprise rents paid by certain subsidiaries for buildings used for their activities and the cost of showrooms used by foreign subsidiaries.

PAYROLL COSTS

These comprise the entire cost relating to employees, including merit promotions, category transfers, cost-of-living allowances, vacation not taken and provisions made pursuant to the law and relative collective labour agreements applying in the various countries. The changes from the preceding year are not significant.

AMORTISATION OF INTANGIBLE ASSETS

Amortisation of intangible assets has been calculated in relation to the period over which these assets are considered to benefit Group operations.

DEPRECIATION OF FIXED ASSETS

Fixed assets are depreciated over their estimated useful lives.

OTHER INTANGIBLE ASSET WRITE-DOWNS

This caption relates to the write-down of the goodwill relating to our subsidiary Bellegrave Ceramics Plc as explained in the section dealing with *Significant events in the year*.

OTHER NON-CURRENT ASSET WRITE-DOWNS

These include a write-down of Lire 1,401 million to reduce accounts receivable to estimated realisable value.

MISCELLANEOUS OPERATING COSTS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|------------------------------------|--------------|--------------|------------|
| Bad debts written off | 1,608 | 1,213 | 395 |
| Losses on disposal of fixed assets | 39 | 203 | (164) |
| Association dues and expenses | 262 | 236 | 26 |
| Miscellaneous taxes | 3,679 | 3,433 | 246 |
| Refund of damages | 289 | 139 | 150 |
| Other | 2,288 | 2,010 | 278 |
| Total | 8,165 | 7,234 | 931 |

FINANCIAL INCOME AND CHARGES

The results of financial and treasury transactions are summarised hereunder (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|-----------------|-----------------|--------------|
| Income from equity investments | 4,505 | 58 | 4,447 |
| Interest on non-current accounts receivable | 92 | 97 | (5) |
| Income from non-current securities | 173 | 77 | 96 |
| Income from current securities | 1,357 | 397 | 960 |
| Income other than the above | 6,054 | 4,522 | 1,532 |
| Interest expense and other financial charges | (29,710) | (26,301) | (3,409) |
| Total | (17,529) | (21,151) | 3,621 |

INCOME FROM EQUITY INVESTMENTS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|--------------|-----------|--------------|
| Dividends on shares other than those following | 382 | | 382 |
| Dividends and tax credit from Adesital SpA | 483 | 58 | 425 |
| Gain on sale of our holding in Adesital SpA | 3,640 | | 3,640 |
| Total | 4,505 | 58 | 4,447 |

INCOME FROM NON-CURRENT ACCOUNTS RECEIVABLE

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--|------------|------------|-----------|
| <i>Parent company and its subsidiaries</i> | | | |
| Kabaca Srl | 67 | 67 | - |
| B.I. Beni Immobili SpA | | 4 | (4) |
| <i>Other</i> | | | |
| Interest on taxes paid in advance on the provision for staff termination pay | 92 | 93 | (1) |
| Gains on securities | 98 | | 98 |
| Miscellaneous | 8 | 10 | (2) |
| Total | 265 | 174 | 91 |

The amount of Lire 92 million relates to the revaluation of the amount of taxes paid in advance by the parent company and the Italian subsidiaries on the provision for staff termination pay.

INCOME FROM CURRENT ACCOUNTS RECEIVABLE AND SECURITIES

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|--------------|--------------|--------------|
| Gains on sale of own shares | 411 | 390 | 21 |
| Gains on sale of securities | 946 | 7 | 939 |
| Bank interest earned and income from securities repurchase agreements | 921 | 1,337 | (416) |
| Interest on customers accounts receivable | 355 | 220 | 135 |
| Foreign exchange gains | 3,908 | 2,129 | 1,779 |
| Other minor items | 870 | 836 | 34 |
| Total | 7,411 | 4,919 | 2,492 |

The increase is due to the gains of about Lire 1 billion realised on the sale of securities by our subsidiary La Generale Servizi Srl, and the increase in foreign exchange gains.

As a matter of prudence, gains on the sale of listed securities to third parties made by our subsidiary C.F.C. SA have not been recorded, since another of our subsidiaries (United Tiles SA) has purchased on the market an even greater number of securities of the same issuers.

INTEREST EXPENSE AND OTHER FINANCIAL CHARGES

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---|---------------|---------------|--------------|
| <i>Payable to parent company and its subsidiaries</i> | | | |
| Fincisa SpA | 39 | 49 | (10) |
| CISF Ceramiche Ind.li Sassuolo e Fiorano | 186 | 67 | 119 |
| <i>Payable to others</i> | | | |
| Interest expense on mortgage and other loans | 10,038 | 7,522 | 2,516 |
| Bond interest expense | 386 | 1,623 | (1,237) |
| Bank overdraft interest | 4,466 | 3,613 | 853 |
| Losses on securities | 0 | 247 | (247) |
| Foreign exchange losses | 4,072 | 2,046 | 2,026 |
| Rebates expense | 9,469 | 8,925 | 544 |
| Other financial charges | 1,054 | 2,209 | (1,155) |
| Total | 29,710 | 26,301 | 3,409 |

Interest payable to Fincisa SpA and C.I.S.F. Ceramiche Industriali di Sassuolo e Fiorano relate to two loans taken out by the subsidiary La Generale Servizi Srl - these are carried in the consolidated financial statements at Lire 4 billion and Lire 7.3 billion respectively.

The increase in financial charges over 1999 is mainly due to the increase in medium-term loans.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|-----------------------|--------------|------------|------------|
| Write-downs: | | | |
| of shareholdings | 736 | 435 | 301 |
| of current securities | 381 | | 381 |
| Total | 1,117 | 435 | 682 |

This caption reflects the effects of the valuation of holdings in unconsolidated subsidiaries and associated companies on the equity method.

Also included is the loss of Lire 381 million recorded by our subsidiary La Generale Servizi Srl when valuing its year-end portfolio of securities issued by non-Group companies.

EXCEPTIONAL INCOME AND CHARGES

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|---------------------------------------|----------------|----------------|----------------|
| <i>Exceptional income</i> | | | |
| Settlement of Stilgres/Tilegres issue | - | 2,121 | (2,121) |
| Disposal gains | 108 | 20 | 88 |
| Windfalls | 24 | 79 | (55) |
| Other minor items | 20 | - | 20 |
| Grant under Law 140 of 1997 | 73 | 180 | (107) |
| Total | 225 | 2,400 | (2,175) |
| <i>Exceptional charges</i> | | | |
| Prior years taxes | (146) | (358) | 212 |
| Settlement of Stilgres/Tilegres issue | - | (1,456) | 1,456 |
| Settlement of Lovenskiold legal suit | - | (382) | 382 |
| Bellegrove reorganisation costs | (2,140) | - | (2,140) |
| Disposal losses | (19) | (68) | 49 |
| Other minor items | (199) | (12) | (187) |
| Total | (2,504) | (2,276) | (228) |
| Total - net | (2,279) | 124 | (2,403) |

Exceptional charges include the costs incurred by our British subsidiary on its reorganisation which it initiated in the year.

INCOME TAXES FOR THE YEAR

Details follow (millions of lire):

| | 31/12/00 | 31/12/99 | Change |
|--------------------------------------|---------------|---------------|----------------|
| I.R.P.E.G. | 2,565 | 6,673 | (4,108) |
| I.R.A.P. | 5,441 | 5,947 | (506) |
| Income taxes on foreign subsidiaries | 4,672 | 6,055 | (1,383) |
| Deferred tax assets | (1,102) | (1,095) | (7) |
| Total | 11,575 | 17,580 | (6,005) |

WORKFORCE

At 31 December 2000 there were 2,697 employees, decreasing by 65 from 2,762 in the preceding year.

A breakdown by category is shown hereunder:

| | Blue-collars | White-collars | Managers | Total |
|-------------------------------|--------------|---------------|------------|-------------|
| Employees at 31 December 2000 | 1,856 | 784 | 57 | 2,697 |
| Employees at 31 December 1999 | 1,907 | 793 | 62 | 2,762 |
| Change | (51) | (9) | (5) | (65) |

OTHER INFORMATION

Reference should be made to the Directors' Report on Group Activities for information on the Group's business activities and developments, the outlook for the future, and significant events arising after the balance sheet date.

The following information is given pursuant to the law and Article 78 of Consob Regulation n° 11971 of 14 May 1999:

COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

| Person First name and surname | Job description | | Compensation for the office | Compensation (lire) | | |
|-------------------------------------|---------------------------------------|---------------------|--------------------------------|----------------------|------------------------------------|-----------------------|
| | Office | Period of office | | Non-cash benefits | Bonuses and other incentives | Other compensation |
| Oscar Zannoni | Chairman of the Board of Directors | 1-1 / 31-12-00 | 867,290,370 | | | |
| Renzo Arletti | Managing Director | 1-1 / 24-6-00 | 1,050,000,000 | | | |
| Nedo Brogi | Managing Director | 1-1 / 31-12-00 | 94,290,370 | | | 620,023,797 (*) |
| Giuliano Panizzi | Director | 1-1 / 31-12-00 | 43,000,000 | | | |
| Alfonso Panzani | Director | 1-1 / 31-12-00 | 45,500,000 | | | |
| Loredana Panzani | Director | 1-1 / 31-12-00 | 45,500,000 | | | |
| Giancarlo Pellati | Director | 1-1 / 31-12-00 | 97,290,370 | | | |
| Giuseppe Zannoni | Director | 1-1 / 31-12-00 | 45,000,000 | | | |
| | Total | | 2,287,871,110 | - | | - 620,023,797 |
| Clodomiro Zanasi | Statutory auditor | 1-1 / 31-12-00 | 71,400,000 | | | |
| Alberto Baraldi | Statutory auditor | 1-1 / 31-12-00 | 51,000,000 | | | |
| Carlo Ricco | Statutory auditor | 1-1 / 31-12-00 | 51,000,000 | | | |
| | Total | | 173,400,000 | - | | - |

(*) The data relating to the Director Nedo Brogi is in respect of his compensation as a manager in the Company.

Compensation to directors and statutory auditors relates to their activities at Gruppo Ceramiche Ricchetti SpA and its subsidiary companies.

Modena , 12 April 2001

For the Board of Directors
The Chairman
Oscar Zannoni

**CONSOLIDATED CASH FLOW STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2000 (millions of lire)**

| | 2000 | 1999 |
|--|----------|-----------|
| Net opening financial debt | 228,466 | 46,742 |
| Cash flow from operating activities | | |
| Net profit (loss) for the year | (6,721) | 11,154 |
| Amortisation and write-downs of intangible assets | 13,022 | 11,165 |
| Depreciation and write-downs of tangible fixed assets | 40,767 | 41,226 |
| Net transfers and (charges) to provisions for liabilities and charges | (408) | (599) |
| Transfer to provision for staff termination pay | 6,989 | 6,476 |
| Write-downs of non-current financial assets | 365 | 435 |
| Change in working capital | (11,466) | (128,874) |
| Total | 42,548 | (59,017) |
| Cash flow from investment activities | | |
| Increase in net non-current assets arising from changes in the consolidation area following the merger | | (133,726) |
| Increase in intangible assets | (1,982) | (9,881) |
| Increase in fixed assets | (28,543) | (43,638) |
| Increase in non-current financial assets | (8,218) | (11,306) |
| Effects of exchange rate variations on net non-current assets | 121 | (1,368) |
| Net value of assets sold | 567 | 1,347 |
| Decrease in non-current financial assets | 9,143 | 14 |
| Decrease (Increase) in accounts receivable due after one year | 4,465 | (4,773) |
| Increase (Decrease) in accounts payable due after one year | (1,850) | 458 |
| Charges to the provision for staff termination pay | (6,117) | (5,056) |
| Total | (32,414) | (207,929) |
| Cash flow from net equity operations | | |
| Change in share capital | 4,405 | 39,000 |
| Increase in reserves | 5,107 | 53,973 |
| Dividends | (8,879) | (6,957) |
| Tax on revaluation | (1,448) | |
| Change in minority interests' capital and reserves | 127 | (3,688) |
| Translation difference | 36 | 2,894 |
| Total | (652) | 85,222 |
| Net closing financial debt | 218,984 | 228,466 |
| Working capital generated from operations | | |
| Change in current assets | | |
| Increase (Decrease) in inventories | (22,432) | 145,932 |
| Increase (Decrease) in accounts receivable from associated companies | 21 | 131 |
| Increase (Decrease) in accounts receivable from parent company | (1,791) | 1,250 |
| Increase (Decrease) in customer accounts receivable | 6,458 | 113,826 |
| Increase (Decrease) in other accounts receivable | 7,293 | 3,267 |
| Increase (Decrease) in prepayments and accrued income | 603 | 1,412 |
| Total | (9,848) | 265,818 |

Change in current liabilities

| | | |
|---|-----------------|----------------|
| Increase (Decrease) in suppliers accounts payable | (18,285) | 109,319 |
| Increase (Decrease) in accounts payable to associated companies | (82) | 986 |
| Increase (Decrease) in accounts payable to parent company | (4,087) | 11,429 |
| Increase (Decrease) in taxes payable | (8,719) | 13,405 |
| Increase (Decrease) in accounts payable to social security institutions | 1,112 | 3,755 |
| Increase (Decrease) in other accounts payable | 6,549 | (3,637) |
| Increase (Decrease) in accrued charges and deferred income | 2,198 | 1,687 |
| Total | (21,314) | 136,944 |
| Change in working capital | 11,466 | 128,874 |

31/12/00 31/12/99

Details of effects of changes in the consolidation area

| | |
|--|------------------|
| Increase in intangible assets | (9.458) |
| Increase in fixed assets | (155.232) |
| Increase in non-current financial assets | (6.070) |
| Increase in provisions for liabilities and charges | 14.546 |
| Increase in provision for staff termination pay | 22.488 |
| Total | (133.726) |

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 1999 AND 31 DECEMBER 2000 (MILLIONS OF LIRE)

| | Share capital | Share premium account | Revaluation reserve | Legal reserve | Reserve for own shares in portfolio | Other reserves | Translation reserve | Net profit (loss) for the year | Total equity pertaining to Ricchetti Group | Minority interests in equity | Total shareholders' equity |
|---|---------------|-----------------------|---------------------|---------------|-------------------------------------|----------------|---------------------|--------------------------------|--|------------------------------|----------------------------|
| Balance at 31 December 1998 | 49,875 | 57,680 | 490 | 790 | 220 | 40,954 | (6,807) | 11,020 | 154,222 | 4,378 | 158,600 |
| Allocation of net profit for the year | | | | 453 | | 3,610 | | (11,020) | (6,957) | | (6,957) |
| Increase in share capital arising from merger | 39,000 | | | | | | | | 39,000 | | 39,000 |
| Change in reserves arising from merger | | | 17,241 | | | 23,519 | | | 40,760 | | 40,760 |
| Increase to reserve for own shares in portfolio | | | | | 3,994 | (3,994) | | | - | | - |
| Changes in consolidation area | | | | | | 13,213 | | | 13,213 | (3,899) | 9,314 |
| Effects of exchange rate variations on consolidation of foreign companies | | | | | | | 2,894 | | 2,894 | | 2,894 |
| Net profit for the year | | | | | | | | 11,154 | 11,154 | 211 | 11,365 |
| Balance at 31 December 1999 | 88,875 | 57,680 | 17,731 | 1,243 | 4,214 | 77,302 | (3,913) | 11,154 | 254,286 | 690 | 254,976 |
| Allocation of net profit for the year | | | | 159 | | 2,116 | | (11,154) | (8,879) | | (8,879) |
| Increase in share capital following exercise of warrants | 4,405 | 5,283 | | | | | | | 9,688 | | 9,688 |
| Revaluation of buildings | | | 6,172 | | | | | | 6,172 | | 6,172 |
| Increase to reserve for own shares in portfolio | | | | | (1,993) | 1,993 | | | - | | - |
| Changes in consolidation area | | | | | | (176) | 212 | | 36 | 95 | 131 |
| Effects of exchange rate variations on consolidation of foreign companies | | | | | | | (176) | | (176) | (7) | (183) |
| Loss for the year | | | | | | | | (6,721) | (6,721) | 39 | (6,682) |
| Balance at 31 December 2000 | 93,280 | 62,963 | 23,903 | 1,402 | 2,221 | 81,235 | (3,877) | (6,721) | 254,406 | 817 | 255,223 |

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2000
EXPRESSED IN EURO
(1 EURO = LIRE 1936.27)
(pursuant to Consob Instruction n° 98083971 of 26 October 1998)**

| CONSOLIDATED BALANCE SHEET - ASSETS | 31 December 2000 | 31 December 1999 |
|--|---------------------|---------------------|
| Subscribed capital unpaid | - | - |
| Intangible assets | | |
| Formation, start-up and similar costs | 1,324,309 | 1,880,894 |
| Research, development and advertising costs | | |
| Patents and intellectual property rights | 794,871 | 559,680 |
| Concessions, licences, trademarks and similar rights | 511,362 | 610,018 |
| Goodwill, other than on consolidation | 1,844,009 | 2,136,917 |
| Goodwill on consolidation | 11,715,484 | 16,269,493 |
| Other intangible assets | 814,871 | 1,312,139 |
| Total intangible assets | 17,004,907 | 22,769,140 |
| Fixed assets | | |
| Land and buildings | 77,603,940 | 74,932,293 |
| Plant and machinery | 51,209,672 | 55,333,783 |
| Industrial and sales equipment | 605,406 | 1,397,128 |
| Other fixed assets | 5,585,734 | 5,591,405 |
| Assets under construction and payments on account | 125,417 | 631,027 |
| Total fixed assets | 135,130,169 | 137,885,636 |
| Non-current financial assets | | |
| Investments in: | | |
| unconsolidated subsidiaries | 14,864 | 37,410 |
| associated companies | 2,578,237 | 3,390,618 |
| other companies | 1,394,030 | 1,225,127 |
| | 3,987,131 | 4,653,155 |
| Accounts receivable | | |
| from associated companies | 1,277,921 | |
| from others | 1,430,278 | 1,594,693 |
| | 2,708,198 | 1,594,693 |
| Other securities | 4,379,481 | 6,395,045 |
| Total non-current financial assets | 11,074,811 | 12,642,894 |
| Total non-current assets | 163,209,887 | 173,297,670 |

| CONSOLIDATED BALANCE SHEET - ASSETS | 31 December 2000 | 31 December 1999 |
|--|---------------------|---------------------|
| Current assets | | |
| Inventories | | |
| Raw materials, supplies and consumable stores | 9,472,818 | 9,439,805 |
| Work in progress and semifinished products | 3,353,351 | 2,603,585 |
| Finished products and merchandise | 93,107,509 | 105,439,040 |
| Payments on account | - | 36,322 |
| Total inventories | 105,933,678 | 117,518,752 |
| Accounts receivable | | |
| Customers accounts receivable | | |
| - due within one year | 96,767,725 | 93,432,382 |
| - due after one year | | 1,509,697 |
| Total | 96,767,725 | 94,942,079 |
| Accounts receivable from associated companies | | |
| - due within one year | 78,295 | 67,824 |
| - due after one year | | |
| Total | 78,295 | 67,824 |
| Accounts receivable from parent company and its subsidiaries | | |
| - due within one year | 390,625 | 1,315,716 |
| - due after one year | | |
| Total | 390,625 | 1,315,716 |
| Other accounts receivable | | |
| - due within one year | 9,466,025 | 5,699,453 |
| - due after one year | 2,036,275 | 1,930,682 |
| Total | 11,502,300 | 7,630,135 |
| Total accounts receivable | 108,738,945 | 103,955,754 |
| Current financial assets | | |
| Own shares in portfolio | 1,147,329 | 2,176,542 |
| <i>(Nominal value)</i> | 251,773 | 521,621 |
| Other securities | 25,558,865 | 166,000 |
| Total current financial assets | 26,706,194 | 2,342,542 |
| Cash and cash equivalents | | |
| Bank and post office deposits | 47,281,194 | 30,003,022 |
| Cheques | 42,525 | 32,939 |
| Cash and cash equivalents on hand | 92,227 | 97,205 |
| Total cash and cash equivalents | 47,415,946 | 30,133,167 |
| Total current assets | 288,794,763 | 253,950,216 |
| Prepayments and accrued income | | |
| Miscellaneous | 1,762,267 | 1,450,790 |
| Total prepayments and accrued income | 1,762,267 | 1,450,790 |
| TOTAL ASSETS | 453,766,916 | 428,698,676 |

| CONSOLIDATED BALANCE SHEET - LIABILITIES AND EQUITY | 31 December 2000 | 31 December 1999 |
|---|---------------------|---------------------|
| Equity | | |
| Share Capital | 48,175,046 | 45,900,107 |
| Share premium account | 32,517,536 | 29,789,223 |
| Revaluation reserve | 12,344,828 | 9,157,596 |
| Legal reserve | 723,852 | 641,788 |
| Reserve for own shares in portfolio | 1,147,329 | 2,176,542 |
| Other reserves | 41,954,205 | 39,922,946 |
| Translation reserve | (2,002,424) | (2,020,832) |
| Net profit (loss) for the year | (3,471,105) | 5,760,480 |
| Minority interests in equity | 422,159 | 356,243 |
| Total equity | 131,811,426 | 131,684,094 |
| Provisions for liabilities and charges | | |
| Provision for retirement benefits and similar obligations | 5,069,797 | 5,047,528 |
| Tax provision | 5,361,886 | 5,964,968 |
| Other provisions | 913,755 | 620,160 |
| Total provisions for liabilities and charges | 11,345,438 | 11,632,657 |
| Provision for staff termination pay | 17,728,188 | 17,286,233 |
| Accounts payable | | |
| Bonds | | |
| - due within one year | 2,614,236 | 2,614,236 |
| - due after one year | | |
| Total | 2,614,236 | 2,614,236 |
| Amounts owing to banks | | |
| - due within one year | 90,138,534 | 46,327,455 |
| - due after one year | 93,093,267 | 99,848,984 |
| Total | 183,231,801 | 146,176,440 |
| Amounts owing to other lenders | | |
| - due within one year | 499,529 | 568,027 |
| - due after one year | 872,072 | 1,109,871 |
| Total | 1,371,602 | 1,677,898 |
| Payments received on account | | |
| - due within one year | 99,168 | 93,714 |
| - due after one year | | |
| Total | 99,168 | 93,714 |
| Accounts payable to suppliers | | |
| - due within one year | 71,865,634 | 81,314,579 |
| - due after one year | | 955,445 |
| Total | 71,865,634 | 82,270,024 |
| Accounts payable to associated companies | | |
| - due within one year | 466,828 | 509,226 |
| - due after one year | | |
| Total | 466,828 | 509,226 |

| CONSOLIDATED BALANCE SHEET - LIABILITIES AND EQUITY | 31 December 2000 | 31 December 1999 |
|---|---------------------|---------------------|
| Accounts payable to parent company and its subsidiaries | | |
| - due within one year | 5,731,785 | 7,842,313 |
| - due after one year | | |
| Total | 5,731,785 | 7,842,313 |
| Taxes payable | | |
| - due within one year | 5,743,339 | 10,246,374 |
| - due after one year | | |
| Total | 5,743,339 | 10,246,374 |
| Accounts payable to social security institutions | | |
| - due within one year | 4,252,428 | 3,677,948 |
| - due after one year | | |
| Total | 4,252,428 | 3,677,948 |
| Other accounts payable | | |
| - due within one year | 15,228,481 | 11,846,284 |
| - due after one year | | |
| Total | 15,228,481 | 11,846,284 |
| Total accounts payable | 290,605,301 | 266,954,455 |
| Accrued charges and deferred income | | |
| Miscellaneous | 2,276,564 | 1,141,236 |
| Total accrued charges and deferred income | 2,276,564 | 1,141,236 |
| TOTAL LIABILITIES AND EQUITY | 453,766,916 | 428,698,676 |

| CONSOLIDATED MEMORANDUM ACCOUNTS | 31 December 2000 | 31 December 1999 |
|----------------------------------|---------------------|---------------------|
| Commitments | 6,489,858 | 5,103,029 |
| Contingent liabilities | 14,383,091 | 8,631,650 |
| TOTAL MEMORANDUM ACCOUNTS | 20,872,949 | 13,734,679 |

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 2000 | 1999 |
|---|--------------------|--------------------|
| Production value | | |
| Revenues from sales and services | 374,866,800 | 368,183,431 |
| Change in inventories of work in progress, semifinished and finished products | (3,575,426) | 6,338,557 |
| Internal cost capitalisations | 54,708 | 61,172 |
| Other income: | | |
| - miscellaneous | 3,775,911 | 3,464,674 |
| Total production value | 375,121,994 | 378,047,833 |
| Production costs | | |
| Purchases of raw materials, supplies, consumable stores and merchandise | 118,802,681 | 136,148,055 |
| Cost of services | 102,845,396 | 88,533,001 |
| Rents, leasing and similar costs | 5,445,643 | 5,291,250 |
| Payroll costs | | |
| a) Salaries and wages | 67,351,706 | 68,348,276 |
| b) Social security | 20,976,282 | 20,391,744 |
| c) Staff termination pay | 3,609,582 | 3,344,672 |
| d) Retirement benefits and similar obligations | 385,972 | 1,344,216 |
| e) Other payroll costs | 1,724,398 | 728,077 |
| Total | 94,047,940 | 94,156,985 |
| Amortisation, depreciation and write-downs | | |
| Amortisation of intangible assets | 4,273,504 | 4,949,043 |
| Depreciation of fixed assets | 21,054,396 | 21,291,499 |
| Other intangible asset write-downs | 2,452,192 | 817,397 |
| Other non-current asset write-downs | 723,450 | 666,144 |
| Total | 28,503,542 | 27,724,083 |
| Change in inventories of raw materials, supplies, consumable stores and merchandise | 7,717,609 | (3,705,251) |
| Provisions for liabilities and charges | 4,180 | 11,593 |
| Other provisions | 204,038 | 118,711 |
| Miscellaneous operating costs | 4,217,086 | 3,735,914 |
| Total production costs | 361,788,115 | 352,014,341 |
| Operating profit | 13,333,879 | 26,033,491 |
| Financial income and charges | | |
| Share income | 2,326,712 | 29,915 |
| Other financial income: | | |
| a) from non-current receivables | 47,725 | 50,352 |
| b) from non-current securities | 89,209 | 39,978 |
| c) from current securities | 700,966 | 204,831 |
| d) financial income other than the above: | | |
| - from associated companies | 4,693 | 1,817 |
| - from parent company and its subsidiaries | 4,981 | |
| - other | 3,116,642 | 2,333,169 |
| Total financial income | 6,290,928 | 2,660,060 |

| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 2000 | 1999 |
|---|---------------------|---------------------|
| Interest expense and other financial charges: | | |
| - to parent company and its subsidiaries | (116,489) | (60,343) |
| - other | (15,227,567) | (13,523,293) |
| Total interest expense and financial charges | (15,344,056) | (13,583,636) |
| Total financial income and charges - net | (9,053,128) | (10,923,576) |
| Value adjustments to financial assets | | |
| Write-downs of shares | (380,057) | (224,764) |
| Write-downs of current securities | (196,655) | |
| Total value adjustments to financial assets | (576,712) | (224,764) |
| Exceptional income and charges | | |
| Exceptional income: | | |
| - disposal gains | | 10,192 |
| - miscellaneous | 116,159 | 1,229,133 |
| Total | 116,159 | 1,239,324 |
| Exceptional charges: | | |
| - disposal losses | | 35,254 |
| - prior years' taxes | 75,204 | 186,057 |
| - miscellaneous | 1,217,944 | 953,957 |
| Total | 1,293,148 | 1,175,268 |
| Total exceptional income and charges - net | (1,176,989) | 64,056 |
| Profit before taxes | 2,527,049 | 14,949,208 |
| Income taxes for the year | 5,977,999 | 9,079,523 |
| Profit for the year including the portion pertaining to minority interests | (3,450,950) | 5,869,685 |
| Results for the year pertaining to minority interests | 20,155 | 109,205 |
| Net profit (loss) for the year | (3,471,105) | 5,760,480 |

Modena, 12 April 2001

For the Board of Directors
The Chairman
Oscar Zannoni

AUDIT CERTIFICATE

