Poltrona Frau Group

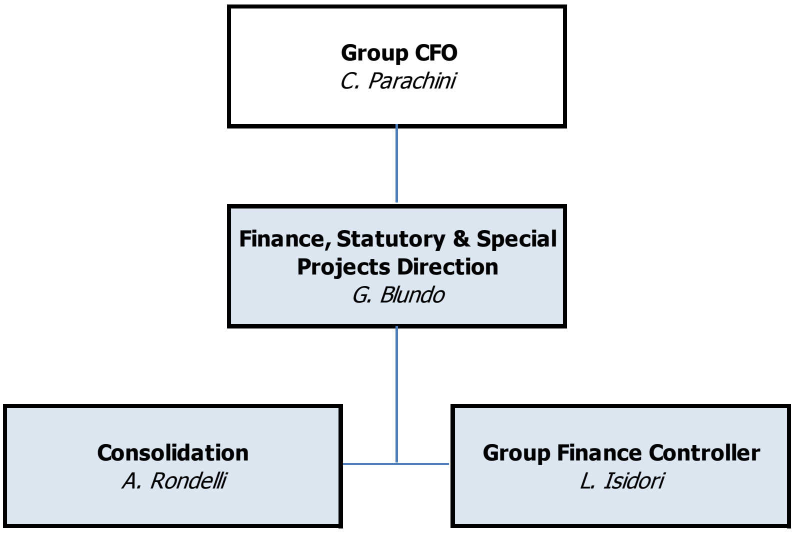
GROUP ACCOUNTING STANDARDS AND GUIDELINES FOR CONSOLIDATION PURPOSES

February 2012

CONTENTS

<u>FINANCE, STATUTORY & SPECIAL PROJECTS DIRECTION ORGANIZATIONAL STRUCTURE</u>

The Finance, Statutory & Special Projects Direction organizational structure has been defined as below:



All the activities related to the preparation of the consolidated financial reports (quarterly reports as of March 31st and September 30th, half-year condensed financial statements as of June 30th and consolidated financial statements as of December 31st) are under the responsibility of the **Finance, Statutory and Special Projects Direction.**

For further details please refer to the internal communication n. 10 / 2011 / AFC and subsequent updates.

Contacts

Please find below a list of Administration, Finance & Control contacts that may be useful:

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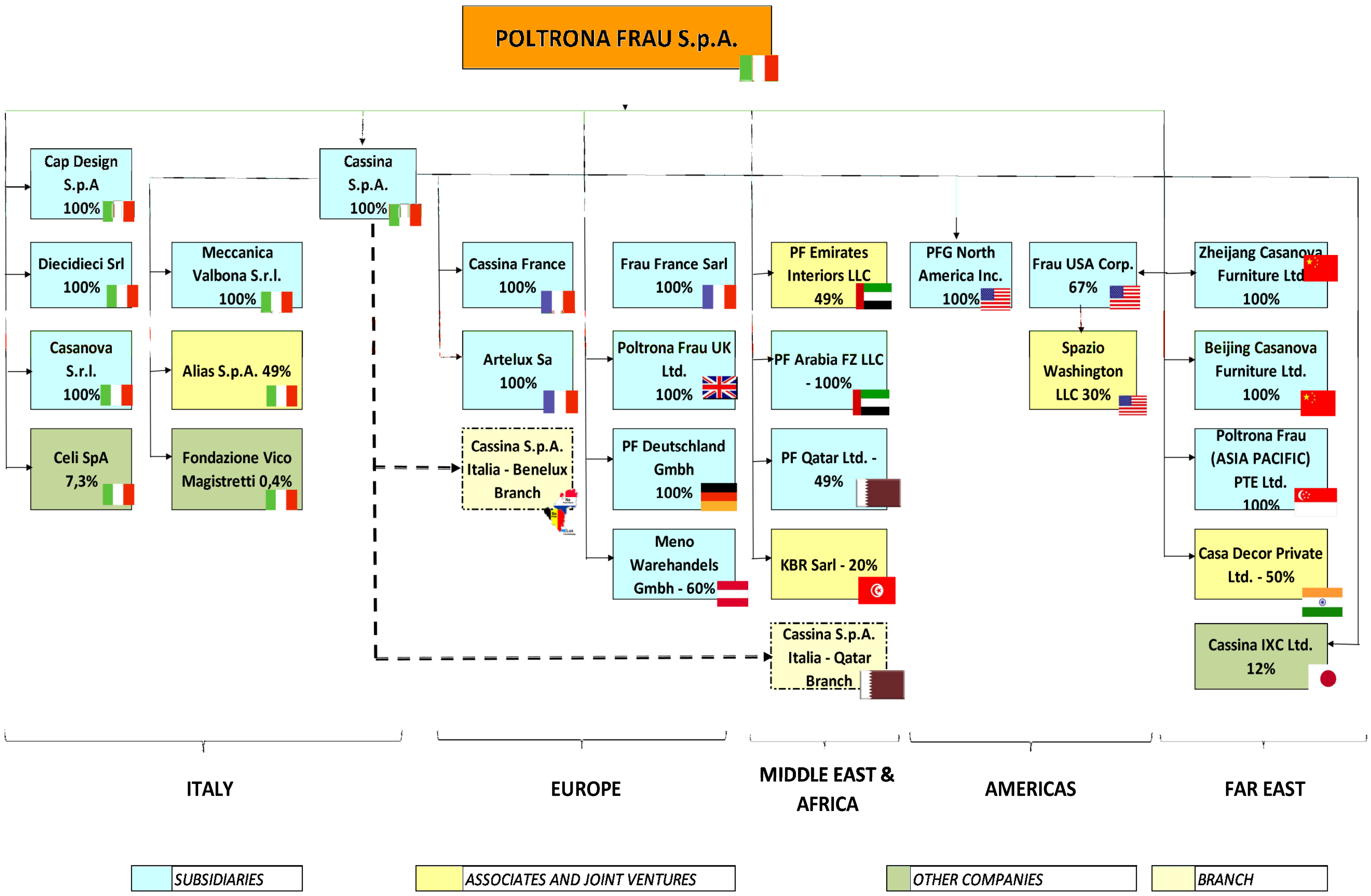
GROUP'S LEGAL STRUCTURE



Scope of consolidation

The consolidation area has not changed with respect to December 31st, 2011.

The consolidation area as at February 29th, 2012 includes the parent company Poltrona Frau S.p.A. and those subsidiaries controlled, either directly or indirectly, by the parent company as listed hereafter:

Company name	Head office	Currency	Share capital (per currency unit)	Interest held by	% Interest held	% of the Group
Poltrona Frau UK Ltd.	London - UK	GBP	810,520	Poltrona Frau S.p.A.	100%	100%
Poltrona Frau PTE Ltd.	Singapore - S	SGD	2	Poltrona Frau S.p.A.	100%	100%
Frau U.S.A. Corporation	New York - USA	USD	100	Poltrona Frau S.p.A.	67%	67%
Frau France S.a.r.l.	Paris – F	Euro	240,000	Poltrona Frau S.p.A.	100%	100%
Casanova S.r.l.	Turin – I	Euro	10,000	Poltrona Frau S.p.A.	100%	100%
Cap Design S.p.A.	Meda, Milan - I	Euro	4,000,000	Poltrona Frau S.p.A.	100%	100%
Poltrona Frau Group North America Inc.	New York - USA	USD	2,000	Cassina S.p.A.	100%	100%
Cassina S.p.A.	Meda, Milan - I	Euro	15,975,422	Poltrona Frau S.p.A.	100%	100%
Meccanica Valbona S.r.l.	Meda, Milan - I	Euro	52,000	Cassina S.p.A.	100%	100%
Cassina France S.A.	Paris – F	Euro	400,000	Cassina S.p.A.	100%	100%
Artelux S.A.	Tremblay – F	Euro	457,200	Cassina S.p.A.	100%	100%
DieciDieci S.r.l.	Bologna – I	Euro	91,800	Poltrona Frau S.p.A.	100%	100%
Poltrona Frau Deutschland Gmbh	Munich – G	Euro	60,000	Poltrona Frau S.p.A.	100%	100%
Beijing Casanova Furniture Design Co. Ltd.	Beijing – P.R.C.	RMB	1,200,000	Poltrona Frau S.p.A.	100%	100%
Meno Warehandels Gmbh	Vienna – A	Euro	35,000	Poltrona Frau S.p.A.	60%	60%
Zhejiang Casanova Furniture Design Co. Ltd	Zheijang – P.R.C.	RMB	26,422,367	Poltrona Frau S.p.A.	100%	100%
Frau Arabia FZ - LLC	Dubai – U.A.E.	Euro	10,101	Poltrona Frau S.p.A.	80%	80%
PF Emirates Interiors LLC	U.A.E.	AED	10,000,000	Poltrona Frau S.p.A.	49%	49%
Casa Décor Private Ltd.	Mumbai - India	INR	56,671,210	Poltrona Frau S.p.A.	50%	50%
PF Qatar Ltd.	Doha - Qatar	QAR	200,000	Poltrona Frau S.p.A.	49%	49%

The consolidated financial statements are prepared on a line-by-line basis for assets, liabilities, and the costs and revenues of the consolidated companies for their whole amounts (subsidiaries) or to the extent of the Group's interest (jointly controlled entities). Non-controlling interests in the net assets of consolidated subsidiaries and non-controlling interests in the profit or loss of consolidated subsidiaries are presented separately from the interests of the owners of the parent in the consolidated statement of financial position and consolidated income statement. The carrying value of the shareholding in each of the subsidiaries is eliminated against the corresponding share in the subsidiaries' equity including any adjustments to the fair value of the assets and liabilities at the date of acquisition. Any residual difference is allocated to goodwill.

All intragroup balances and transactions and any unrealized gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in those entities.

Even if there isn't a direct investment, all intra-group balances and transactions among the above mentioned subsidiaries have to be written-off for consolidation purposes. As a consequence the related balances have to be classified, on the basis of their nature, in the following accounts:

<u>Balance Sheet:</u>

A107010 - *Long term loan and other receivables due from group companies*
A202020 - *Trade receivables due from group companies*
A203020 - *Other receivables due from group companies*
A204030 – *Intercompany bank account (only for Italian entities)*

L101030 - *Non-current financial liabilities due to group companies*
L105010 - *Other non-current liabilities due to group companies*
L201010 - *Trade payables due to group companies*
L202050 - *Short term financial payables due to group companies (only for Italian entities)*
L204050 - *Other current liabilities due to group companies*

Profit and Loss:

I101200 - *Revenues from sales and services from group companies*
I102200 - *Other revenues from group companies*
I202200 - *Cost for services from group companies (detailed by nature of the service rendered)*
I204200 - *Other operating costs from group companies*
I301600 - *Other finance expenses from group companies*
I401600 - *Other finance income from group companies*

Associates

Investments in associated companies over which the Group exercises significant influence are included in the consolidated financial statements in accordance with the equity method as provided under IAS 28 (Investments in Associates). The Group's share of profits or losses is recorded in the consolidated financial statements from the date the significant influence started being exercised and up until the date when it ceased.

The following sets out the information regarding investments in associated companies measured with the equity method on February 29th, 2012:

Corporate name	Head Office	Currency	Share capital (per currency unit)	Interested held by	% held	% by group
K.B.R. S.a.r.l..	Tunis - Tunisia	TND	18,000	Poltrona Frau S.p.A.	20%	20%
Spazio Washington LLC	Washington – U.S.A.	USD	100,000	Frau U.S.A. Corporation	30%	20%
Alias S.p.A.	Grumello del Monte - Italy	EUR	510,000	Cassina S.p.A.	49%	49%

Investments in other companies measured at cost (Celi and Fondazione Vico Magistretti) and at fair value (Cassina IXC) as at 29th February 2012 are as follows:

Corporate name	Head Office	Currency	Share capital (per currency unit)	Interested held by	% held	% by group
Celi S.p.A.	Stroncone - Italy	EUR	565,524	Poltrona Frau S.p.A.	7,3%	7,3%
Cassina IXC Ltd.	Tokyo - Japan	YEN	400,294	Cassina S.p.A.	12%	12%
Fondazione Vico Magistretti	Milan - Italy	EUR	248,500	Cassina S.p.A.	0,4%	0,4%

All intra-group balances and transactions among the above mentioned associates have not to be written-off for consolidation purposes. They have to be classified among the related Balance Sheet and Profit and Loss accounts.

GROUP ACCOUNTING STANDARDS

The consolidated financial statements of the Poltrona Frau Group are drawn up in compliance with the International Financial Reporting Standards (hereinafter "IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union in accordance with the procedure laid out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and European Council of 19 July 2002, as well as the implementation provisions of Art. 9 of Legislative Decree no. 38/2005.

The Consolidated financial statements are drawn up on the basis of the cost principle, except for derivative financial instruments and "available-for-sale financial assets" which were valued based on the 'fair value' principle.

No exceptions to the application of the IFRS are applied in drawing up these consolidated financial statements. The Income statement is classified on the basis of the nature of costs, the statement of financial position on the basis of current/non-current assets and liabilities, whilst the statement of cash flows is stated using the indirect method.

The consolidated financial statements include the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement, drawn up in accordance with the provisions of IAS 1 and the notes to the financial statements drawn up in accordance with the provisions of the IFRS.

The financial statements are presented in Euro and all values are rounded off to the nearest thousand Euro unless otherwise noted.

The accounting standards and criteria adopted by the Group in preparing the consolidated financial statements have not changed in respect with those previously adopted.

Goodwill

The goodwill arising on the acquisition of subsidiaries or associated companies is initially measured at cost and represents the excess of the purchase cost over the purchaser's share of the fair value of the identifiable assets, liabilities, and contingent liabilities of the acquired companies. Any negative difference ("negative goodwill") is recorded in the Income Statement at the time of acquisition.

Goodwill relating to shareholdings in associated companies is included in the carrying value of those companies.

After initial recognition, the value of goodwill is reduced by any impairment losses; goodwill is tested for impairment once a year or more often in case of events or changes that might lead to impairment.

To that end, any goodwill purchased through business combinations is allocated, starting from the acquisition date, to each Group cash generating unit (or groups of units) which are expected to benefit from the synergistic effects of the purchase, regardless of the allocation of other assets or liabilities to these units (or groups of units).

If the goodwill is assigned to a cash generating unit (or group of units) whose assets are partially divested, the goodwill associated with the asset disposed of will be considered for the purposes of calculating any capital gains (or losses) arising from the transaction. In these cases, the goodwill sold will be measured on the basis of the values of the asset disposed of as opposed to the asset still held with reference to the unit itself.

Upon first-time adoption of the IFRS, the Group decided not to apply IFRS 3 *Business combinations* retrospectively to the purchases of businesses made before January 1st, 2004; therefore, any goodwill arising on purchases prior to the transition to the IFRS was maintained at the same old values calculated in accordance with the Italian Accounting Standards and subject to verification and recognition of possible impairment losses.

Other intangible fixed assets

Intangible fixed assets purchased separately are recorded as assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be accurately calculated. Intangible fixed assets purchased as a result of business combinations are recorded at fair value established at the date of acquisition if the current value can be reasonably determined.

Apart from development costs, internally-generated intangible fixed assets are not capitalized but recorded in the Income Statement of the financial year in which they arise.

Intangible fixed assets can have definite or indefinite useful lives. The Group has the following categories of intangible fixed assets whose useful lives have been defined as described below:

– brands	indefinite useful life
– development costs	finite useful life
– industrial patent rights and intellectual property rights	finite useful life
– franchises, licenses, and similar rights	finite useful life

After the initial recognition, the intangible fixed assets with definite useful lives are recognized at cost net of accumulated amortization and any accumulated impairment losses. The amortization period and method applied are reviewed at the end of each financial year or more frequently if necessary.

In reference to the intangible fixed assets with definite useful lives, the following amortization rates are applied :

– development costs	5 years
– industrial patent and intellectual property rights	10 years
– franchises, licenses, and similar rights	3 years

In addition to being subject to the above mentioned amortization process based on their useful lives, intangible fixed assets with a definite useful lives are also subject to impairment tests in case evidence suggests that an impairment may have occurred.

After initial recognition, intangible fixed assets with indefinite useful lives are not amortized and are held at cost net of any accumulated impairment losses. Intangible fixed assets with indefinite useful lives are subject to impairment tests once a year or more often, on a case-by-case basis or at cash-generating unit level if events or changes occur which could lead to impairment losses.

Research and development costs

Research costs are paid directly from the Income Statement in the period in which they are incurred.

Development costs incurred in relation to a given project are only capitalized if the group can show it has the technical ability to complete the intangible asset for use or disposal to third parties, its intention to complete this asset for use or disposal to third parties, the manner in which it is expected to generate future economic benefits, the availability of the technical, financial or other types of resources to complete its development, the ability to reliably measure the cost to be allocated to the asset during its development, and the existence of a market for the products and services arising from the asset or its usefulness internally. Capitalized development costs include only expenses that are directly associated with the development process.

Following initial recognition, development costs are recorded at cost less any accumulated amortization and impairment losses recognized in accordance with the manner previously described for intangible fixed assets with definite useful lives.

Tangible fixed assets

Tangible fixed assets are recorded at historical purchase cost less any accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis taking account of the estimated useful life.

Depreciation is calculated as soon as the goods become available for use and are part of the Group's production cycle. It is calculated on a straight-line basis taking account of the estimated useful life of the assets and its residual value. The following depreciation rates are used, which reflect the useful life generally attributed to the various categories of assets, and which are unchanged compared to the previous financial year:

– buildings	from 10 to 33 years
– plants and equipment	8 years
– industrial and commercial equipment	4 years
– other	from 4 to 8 years

Land has an indefinite life and therefore is not depreciated.

The carrying value of tangible fixed assets is tested for impairment if events or changes indicate that the carrying value may not be recovered in accordance with the established depreciation plan. If this type of indication exists and if the carrying value is greater than the expected sales price, the assets or the cash-generating units to which the assets are allocated will be written down to the actual sales price.

The residual value of the assets, their useful lives and the methods applied are reviewed annually and, adjusted, if necessary, at each year end.

Assets held under operating lease or finance lease contracts

The finance lease contracts, that is contracts which substantially transfer all the risks and rewards of ownership of the leased assets to the Group, are capitalized as tangible fixed assets on the date the lease starts at the lower of the fair value of the leased assets and the present value of the lease payments. A liability of the same amount is recorded and progressively reduced in accordance with the repayment terms of the capital amount included in the contractually agreed payments.

The leasing payments are comprised of a capital and an interest amount so as to have a fixed interest rate on the outstanding debt (capital amount). Financial charges (loans) are debited to the Income Statement. The assets are depreciated on the basis of the criterion and rates set out in the previous section *Intangible fixed assets.*

Contracts where the all the risks and rewards of ownership remain with the lessor are classified as operating leases. The lease payments are charged to the Income Statements of the years spanning the duration of the lease.

Any sale and subsequent lease back for the "repurchase" - through a lease contract - of the assets originally owned are recorded as a financing transaction. The assets that are the subject of the transaction are treated as Group assets and continue to be accounted for, and a debit is recorded under liabilities as a contra item of the sale proceeds. Any capital gain from the sale is recorded in the Income Statement on an accrual basis. It will be measured as deferred income and gradually charged to income in the Income Statement over the term of the lease.

Impairment of assets

At every interim and final balance sheet date, the Group will assess if there is any evidence of impairment of intangible fixed assets with definite useful lives, tangible fixed assets and assets held under finance leases. If there is evidence of impairment an assessment of the possible reduction in value will be made (impairment test).

Goodwill and the other intangible fixed assets with indefinite useful lives (trademarks) are annually tested for impairment, whether evidence of a potential loss in value exists or not.

In both cases, where evidence of impairment exists, the Group will make an estimate of the recoverable value of goodwill, intangible fixed assets with indefinite useful lives, or tangible and intangible fixed assets with definite useful lives. The recoverable value is the greater of the fair value of an asset or cash-generating unit less any costs to sell and its value in use, and is calculated for each asset, except where the asset generates cash flows that are not largely independent of the cash flows generated by other assets or groups of assets, in which case the Group will calculate the recoverable value of the cash-generating unit to which the asset belongs. More specifically if goodwill does not generate cash flows independently from other assets or groups of assets, the impairment test will apply the unit or group of units that the goodwill was allocated to.

When calculating the value in use, the Group will discount the estimated future financial flows to their present values, using a pre-tax discount rate that reflects the market value on the time value of money and the specific risks to which the asset is exposed.

In order to estimate the value in use, the future cash flows are calculated by reference to the business plans approved by the Board of Directors, which are the best estimate that the Group can make of the economic conditions expected for the period covered by the business plan. The plan normally covers a three-year period. The long-term growth rate used to estimate the terminal value of the asset or the unit is generally lower than the average long-term growth rate of the industry, country, or reference market, and in certain cases can even equal zero or be negative. Future cash flows are calculated considering the current conditions, therefore, the calculations do not consider either the benefits arising from future reorganizations which the company has not yet committed to, or future investments made for improving or optimizing the asset or unit.

If the carrying value of an asset or cash-generating unit is greater than its recoverable value, the asset is impaired and, as a result, it is written down to its recoverable value.

Impairment losses on operating assets are charged to the Income Statement and posted to the cost category that corresponds to the function of the impaired asset. Furthermore, at each year end, the Group will evaluate the presence of indicators showing a reduction in previously recorded impairment losses. If these indicators exist, the Group will make a new estimate of the recoverable value. Apart from goodwill, the value of an asset which has been previously written down can be reversed only if there have been changes in the estimates used to determine the recoverable value of the asset after the last impairment loss recorded. In this case the carrying value of the asset is raised to its recoverable value, however the value thus increased cannot exceed the carrying value that it would have had if no impairment had been recorded in previous years, less any depreciation or amortization charges. Any impairment loss reversals will be recorded as income in the Income Statement. After an impairment loss reversal has been recorded, the depreciation or amortization of the asset is adjusted in future periods to distribute the adjusted carrying value on a straight line basis over the remaining useful life of the asset.

Reversal of an impairment loss for goodwill is prohibited.

Investments

Investments in associated companies valued at equity are recorded in the Consolidated Statement of Financial Position at cost as increased by any changes in the group’s share of the associated company’s net assets subsequent to the purchase, reduced by impairment, if any. The Consolidated Income Statement will show the Group’s share of income for the year of the associated company. If an Associate makes an adjustment and accounts for it directly through equity, the Group will also record its share and if applicable, will show it in the statement of changes in equity.

Investments in companies other than subsidiaries or associates (generally with an investment of less than 20%) are valued at fair value, if available, or at cost in the case of non- listed shareholdings or shareholdings for which the fair value is not reliable or cannot be determined, at cost, adjusted for reductions in value, in accordance with the provisions of IAS 39 Financial instruments.

The aforesaid investments are classified as “Available-for-sale financial assets” or “Assets measured at fair value through the income statement” among non-current or current assets.

The change in value of investments classified as “Available-for-sale assets” are recorded in an equity reserve which will be transferred to the Consolidated Income Statement at the time of sale, or if where an impairment occurs. Changes in value of the shareholdings classified as “Assets measured at fair value through the Income Statement” are recorded directly in the Consolidated Income Statement.

Other non-current assets

Receivables and loans included in non-current assets are valued using the amortized cost method. Receivables due after more than one year, non-interest bearing receivables or receivables with interest rates that are lower than market rates are discounted at market rates.

Inventories

Inventories are recorded at the lower of purchase or production cost, and the net realizable value represented by the sales proceeds the company would expect to obtain under normal business conditions. The weighted average cost method is used for valuing inventories. The weighted average cost includes any ancillary costs of the purchases made in the period. The valuation of inventories includes the direct costs of materials and labor and any production overheads. The value of obsolete or slow-moving material, finished products, spare parts and other supplies is adjusted by the relevant provision for obsolete inventories taking account of their expected future use and net realizable value.

The measurement of construction contracts is based on the stage of completion determined as the proportion that cost incurred to the balance sheet date bears to the estimated total contract cost. These items are presented net of progress billings received from customers. Any losses on such contracts are fully recorded in the income statement when they become known.

Trade receivables

Trade receivables are recorded at their fair value which is equal to their nominal value and then written down by any impairment through allocations to a specific provision for bad debts. Trade receivables which are due after normal trading terms and which are not interest-bearing are discounted to present value.

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal values, or at their amortized cost in accordance with their nature.

Assets held for sale

Assets held for sale includes all assets (or groups of discontinued operations) whose book value will be recovered principally through sale rather than through their continued use. Assets held for sale are valued at the lower of their net book value and the fair value net of cost of sales.

Long-term borrowings

Long-term borrowings are initially recorded at fair value increased by transaction costs. They are then measured at amortized cost, represented by their initial value, less any capital repayments made, adjusted (written up or down) in accordance with the amortization (using the effective interest method) of any differences between their initial value and their value at expiry.

Provisions for staff

Employee benefits given, during or after termination of the contractual relationship, through defined-benefit programs (for Italian companies, severance indemnity provisions) are recognized when the right matures.
Liabilities for defined-benefit programs, less any plan assets, are determined on the basis of actuarial assumptions and are recognized on an accrual basis in accordance with the work required to qualify for the benefits; the liability is calculated by independent actuaries.

Other staff benefits

In accordance with the provisions of IFRS 2 (Share-based payments), stock options in favor of employees are measured at fair value at their grant dates, according to models which take into account factors and elements (option price, option duration, current price of underlying shares, interest rate for a zero-risk investment over the life of the option) prevailing at the time of allocation.

If the right becomes exercisable after a certain period and/or upon occurrence of certain performance conditions (vesting period), then the total option value is allocated on an accrual basis over the above mentioned period and recognized under a specific item of the equity, with a balancing entry under Personnel costs in the income statement (since it is a payment in kind given to the employee with the aim of retaining his or her and giving him or her an incentive to improve performance in the company).

At each year end the fair value that was originally determined for each option is neither reviewed nor updated but remains vested as a definite amount in the equity. However, at that date, the estimate of the number of options that will mature up to expiry (hence the number of employees who will be entitled to exercise the options) will be updated. The change in estimate will increase or reduce the equity with a contra entry in the Income Statement item “Personnel costs”.
On the option expiration date, the amount registered under the mentioned equity item shall be reclassified as follows: the amount of equity that regards the options exercised will be reclassified under the Share premium reserve while the amount regarding the non-exercised options will be reclassified under the item “Profits (losses) carried forward”.
The cash-settled share-based payments in favor of staff are initially measured at fair value on the date they are allocated based on an actuarial calculation and taking account of the formula used to determine the resale price to the company and the terms and conditions that regulate the allocation of the instrument. This fair value is written off over the period up to maturation, a corresponding liability being recorded in the balance sheet. The liability is recalculated at each balance sheet date up until the settlement date included, all fair value changes being recorded in the Income Statement.
The Group availed of the exemptions permitted under paragraph 25B of IFRS 1 and therefore did not apply IFRS 2 to the stock option plans which had been allocated before November 7th, 2002 also due to the fact that the terms and conditions of these plans remained unchanged.

Provisions for risks and charges

The provisions for risks and charges regard costs and charges with specific characteristics, which are certain or likely to be incurred, but the amount of which or the date of occurrence is still uncertain at the reference period end. The provisions are recorded when there is a real obligation (legal or implicit) which arises from a past event, when it is likely that payments will have to be made to meet the obligation and a reliable estimate can be made of the amount involved.

The amounts recognized as provisions are the best estimate of the expenditure that the Company would be required to pay to settle the present obligation or transfer it to a third party at the balance sheet date. If the effect of discounting the value of money is significant, the provisions are calculated by discounting the expected future cash flows using a pre-tax discount rate which reflects the current market valuation of the cost of money over time. If this discounting is carried out, the increase in the provision due to the passage of time is recorded as a financial charge.

Trade payables and other current liabilities other than financial instruments

Trade payables which are due within normal trading timeframes are initially recorded at cost (identified as the nominal value) and are not discounted.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and currency futures contracts to hedge against risks mainly arising from fluctuations in interest rates and exchange rates. These derivative financial instruments are initially recognized at fair value (or equivalent value) on the date they are signed. Their fair value is periodically re-evaluated. They are accounted for as assets when the fair value is positive and as liabilities when it is negative.

Any profits or losses resulting from changes in the fair value of derivatives which are not suitable for hedge accounting are charged directly to the Income Statement.

The fair value of currency futures contracts is calculated by reference to current futures exchange rates for contracts with similar expiry dates. The fair value of interest rate swap contracts is determined by reference to the market value of similar instruments.

Revenue recognition

Revenue is recognized to the extent that it is likely that economic benefits will accrue to the Group and the related amounts can be reliably measured. The following specific revenue recognition criteria must be complied with before any revenue can be posted to the Income Statement:

<u>Sale of products</u>

Revenue from the sale of products is recognized in the Income Statement when all the risks and rewards of ownership associated with the assets are transferred to the purchaser, which normally coincides with the date the goods are delivered. Revenue is shown net of discounts and allowances.

<u>Services</u>

Revenue from services is recognized when the service is provided.

<u>Financial income</u>

Financial income is recognized once interest income has been assessed (using the effective interest method which is the rate that discounts the estimated future cash flows on the basis of the expected life of the financial instrument to the net carrying value of the financial asset).

<u>Dividends</u>

Dividends are recognized when the right of the shareholders to receive payment matures.

Financial charges and income

Financial charges are recognized on an accrual basis taking account of interest matured on the net value of the related financial assets and liabilities using the effective interest rate.

Other financial charges are recorded in the income statement when they are borne.

Income tax

<u>Current taxes</u>

Current tax assets and liabilities for the current and previous financial years are measured in accordance with what the company expects to receive from or pay to the tax authorities. The rates and tax regulations employed in calculating the tax charges are those ruling at the balance sheet date.

<u>Deferred taxes</u>

Deferred and prepaid income taxes are calculated using the so-called liability method on the temporary differences between the balance sheet balances and the amounts recognized for tax purposes. In addition, deferred tax assets were recorded with regard to the companies' tax losses carried forward.

Deferred tax liabilities are recorded for all taxable temporary differences, apart from:

– when the deferred taxes liabilities are due to the initial recognition of goodwill, or of an asset or liability in a transaction other than a business combination, and which, at the time of the transaction, did not have any affect either on the profit for the year calculated for the purposes of the financial statement, or on the profits or losses calculated for tax purposes;

– with reference to taxable temporary differences associated with shareholdings in subsidiaries, associated companies and joint ventures, when the reversal of the temporary differences can be controlled and it is unlikely to occur in the foreseeable future.

Deferred tax assets are recorded for all deductible temporary differences and for tax assets and liabilities carried forward to the extent that sufficient future taxable income is expected to arise which would allow the deductible temporary differences and tax assets and liabilities carried forward to be used, except for when:

– the deferred tax asset associated with the deductible temporary differences is due to the initial recognition of an asset or liability in a transaction other than a business combination and which did not affect either the profits for the year calculated for the purposes of the financial statement, or the profits or losses calculated for tax purposes at the time of the transaction;
– with reference to taxable temporary differences due to shareholdings in subsidiaries, associated companies and joint ventures, the deferred tax assets are recognized only to the extent that the deductible temporary differences are expected to be paid in future and the taxable income against which the temporary differences can be used is sufficient.

Deferred tax assets are recognized when they are likely to be recovered, based on the estimated future availability of sufficient taxable income against which the unused tax losses or tax credits can be utilized by the Company. The possibility of recovering deferred tax assets is reviewed at each year end.

Deferred tax assets and liabilities are measured on the basis of the tax rates expected to be applied to the financial year in which the assets are realized or the liabilities are settled, considering currently ruling rates and those issued in the past or effectively issued at the balance sheet date.

Taxes on income relating to items recognized directly in equity are charged directly to equity and not to the Income Statement.

Deferred tax assets and liabilities are offset if there is a legal right to offset the current tax assets with the current tax liabilities and the deferred taxes refer to the same taxable entity and the same tax authorities.

Conversion of items in foreign currency

The Group has adopted the Euro as its functional currency. Transactions in foreign currency are initially recognized at the exchange rate ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are reconverted into the functional currency at the exchange rate ruling at the financial year end.

Exchange gains/losses are recorded in the income statement with the exception for those generated by an investment in a foreign subsidiary. Those differences are recorded in the comprehensive income statement until the investment is sold. Then, they are recorded in the income statement.

Any gain/loss generated by income taxes and tax receivables are recorded in the comprehensive income statement as well.

Any non-monetary items measured at historical cost in foreign currency are converted using the exchange rate ruling at the date when the transaction was originally recorded. Any non-monetary items recorded at fair value are converted using the exchange rate ruling at the date when their values were calculated.

Own shares

Own shares are recognized as a reduction of the equity. More specifically, the par value of the own shares is accounted for as a reduction of the issued share capital while the surplus of the purchase value over the par value reduces “Other Reserves”.

Financial instruments write-off

Financial instruments are eliminated when the group no longer holds the contractual rights to the financial instruments. This normally happens when the instrument is sold or when the cash flows generated by the instrument go through an independent third party.

Use of estimates

When drafting the financial statements and notes in accordance with the IFRS, the company is required to make estimates and assumptions that affect the values of the assets and liabilities of the consolidated financial statements and the information on contingent assets and liabilities at the same date. The actual amounts may differ from these estimates. Estimates are used to recognize credit risk provisions, obsolete inventory provisions, amortizations and depreciations, write-downs of the assets, employee benefits, taxes and provisions for risks and charges. These estimates and assumptions are periodically reviewed and the effects of any changes are immediately reflected in the Income Statement.

The main measurement processes that the company uses for making estimates are impairment tests and measurement of intangible fixed assets for business combination transactions accounted for in accordance with IFRS 3.

Earnings per share

Earnings per share is calculated by dividing the net profit of the period to be allocated to the ordinary shareholders of the company by the weighted average number of ordinary shares in circulation in the reference period.

In order to calculate the diluted earnings per share, the weighted average number of outstanding shares is changed assuming the conversion of all the potential shares with dilution effect. The Group’s net profit is also adjusted to take account of the effects of the conversion, net of taxes.

SEGMENT INFORMATION

Business sectors through which the Group operates have been determined on the basis of reports used by the Group's Managing Director to adopt strategic decisions. These reports, reflecting the current organization and corporate structure of the Group, are based on business sectors distinguished by the brands whereby the Group, through its companies, defines its products and manages its business. Each brand benefits from the well-known, strongly identified product/market relationship that is closely connected with the history and values of each of the companies. These companies provide the necessary variety by offering products that are completely independent and distinctive from one another, even though all form part of the luxury furnishing sector.

These business sectors are briefly described below:

- *Poltrona Frau:* the Parent company brand that operates in the high end furnishing sector, produces and distributes high quality products distinguished for their classical design. The activities of Poltrona Frau are divided in two main segments: (i) residential, namely the design, manufacture and distribution of high quality furnishing products for the home and office intended for a select clientele, and (ii) contract, which comprises the supply of quality furnishings for public and community spaces (called fittings), in addition to the outfitting of top-of-the-range cars, airplanes, helicopters and boats (so-called interiors).
- *Cassina:* a company purchased by Poltrona Frau in June 2005, produces and sells armchairs, couches, tables, seats, furniture, containers, and beds, both for residential and office use. Within the Group, Cassina is an important diversification element, thanks to its range of extraordinary products signed by the most historical and modern designers. Cassina is also considered as a reference operator in the contract sector as regards premises (including showrooms and hotels), and, where specifically required, of yachts and cruise ships.
- *Cappellini:* it joined the Group in December 2004. Its activity is divided in the residential and fittings sectors, with modern and avant-garde design products that are marked by a continuous research for innovative materials.

The Group also considers useful to provide additional information regarding margins and EBITDA on the three business segments in which it operates (Residential, Contract and Interiors), as well as the revenues recorded for each geographical area. In particular, four main geographical areas have been identified: Italy, EMEA (which includes all European countries except for Italy, the countries of the Middle East and Africa), the Americas (mainly U.S.A.) and Asia.

Please also note that, in order to permit the elimination of profit in stock related to intercompany transactions, subsidiaries are also required to provide the consolidation team with the detail of its stock by brand / supplier (trading and manufacturing company) and the gross margin on intercompany transaction by company (manufacturing company).

GROUP FINANCIALS AND HYPERION INTERNAL RESOURCE PORTAL

Quarterly reports as of March 31st and September 30th, half-year condensed financial statements as of June 30th and consolidated financial statements as of December 31st are available on the Group's website (www.poltronafraugroup.com) in the Investor Relations / Financials section.

The Hyperion Internal Resource portal (http://intranet.poltronafraugroup.com/hyperion) contains the following links in order to support the main activities for statutory reporting purposes as follows:

- *HFM Logon page*: logon page to Group's consolidation and reporting system;

- *FDM Logon page*: the "Hyperion Financial Data Quality Management" tool is used by the three main Italian legal entities in order to automatically transfer financial data from local accounting system into HFM on the basis of adequate internal control procedures;

- *Financial Agenda*: which reports the deadlines for the quarterly report as at March 31st, half-year condensed financial statements as at June 30th, and quarterly report as at September 30th related to the following main activities:

  - Intercompany accounts - data entry
  - Balance sheet and Profit and Loss under local gaap - data entry
  - Journals entries regarding IFRS adjustments (if any) - data entry
  - Flows and Segment information – data entry
  - Trade Receivables and other main information

  Please note that detailed instructions are sent by the consolidation team before each quarterly closing.

- *E-learning tools*: composed by the HFM User Guide (a brief overlook and operative guide) and the HFM Video Tutorial (available in English and Italian language);

- *Group Accounting Standards & Guidelines for consolidation purposes*: for the up-to-date version of the present document.

REPORTING PACKAGE – Balance Sheet and Profit and Loss Detailed

Balance Sheet

Scenario: ACT **Year:** 2011 **Period:** DEC **Entity:** XXX **Currency:** XXX

	2011 December	2010 December	Delta
A101010 Goodwill from consolidation	0	0	0
A101020 Statutory Goodwill	0	0	0
A101000 Goodwill	**0**	**0**	**0**
A102010 Trade marks with an indefinite life	0	0	0
A102000 Trade marks with an indefinite life	**0**	**0**	**0**
A103010 Development costs	0	0	0
A103020 Industrial patents and intellectual property rights	0	0	0
A103030 Concession, licences, trademarks and others similar rights	0	0	0
A103040 Other intangibles	0	0	0
A103000 Other intangible assets	**0**	**0**	**0**
A104010 Land and building	0	0	0
A104020 Plant and machinery	0	0	0
A104030 Industrial and commercial equipment	0	0	0
A104040 Construction in progress and advances	0	0	0
A104050 Leased property, plant and machinery	0	0	0
A104060 Other tangible assets	0	0	0
A104000 Tangible Assets	**0**	**0**	**0**
A105000 Trading investments	**0**	**0**	**0**
A106010 Investments in subsidiaries	0	0	0
A106020 Investments in associates and joint ventures	0	0	0
A106030 Investments in other companies	0	0	0
A106040 Investments in equity method	0	0	0
A106000 Investments	**0**	**0**	**0**
A107010 Long term loan and other receivables due from group companies	0	0	0
A107020 Long term loan and other receivables due from associates and joint ventures	0	0	0
A107030 Guarantee deposits	0	0	0
A107040 Other non current assets	0	0	0
A107000 Other non current assets	**0**	**0**	**0**
A108010 Deferred tax assets	0	0	0
A108000 Deferred tax assets	**0**	**0**	**0**
A100000 TOTAL NON CURRENT ASSETS	**0**	**0**	**0**
A201010 Raw materials	0	0	0
A201020 Semi-finished products	0	0	0
A201030 Finished goods and products	0	0	0
A201040 Work in progress	0	0	0
A201050 Advances	0	0	0
A201000 Inventories	**0**	**0**	**0**
A202010 Trade receivables due from third parties	0	0	0
A202020 Trade receivable due from group companies	0	0	0
A202030 Trade receivable due from associates and joint ventures	0	0	0
A202040 Bad debt provision	0	0	0
A202000 Trade receivable	**0**	**0**	**0**
A203010 Tax receivables	0	0	0
A203020 Other receivable due from group companies	0	0	0
A203030 Other receivable due from associates and joint ventures	0	0	0
A203040 Other receivables due from third parties	0	0	0
A203000 Other current assets	**0**	**0**	**0**
A204010 Bank and post office deposits	0	0	0
A204020 Cash and cash equivalents in hand	0	0	0
A204030 Intercompany bank account (only for Italian entities)	0	0	0
A204000 Cash and cash equivalents	**0**	**0**	**0**
A200000 TOTAL CURRENT ASSETS	**0**	**0**	**0**
A401000 Assets held for sale	0	0	0
A400000 Assets held for sale	**0**	**0**	**0**
A000000 TOTAL ASSETS	**0**	**0**	**0**

Balance Sheet

Scenario: ACT **Year:** 2011 **Period:** DEC **Entity:** XXX **Currency:** XXX

	2011 December	2010 December	Delta
L301000 Share capital	0	0	0
L302000 Share premium reserve	0	0	0
L303000 Fair Value reserve	0	0	0
L304000 Other reserves	0	0	0
L305000 Retained Earnings (Losses)	0	0	0
L306000 Net Income (Loss) for the period	0	0	0
L30GR00 Total Group shareholders' equity	**0**	**0**	**0**
L307000 Minority interest capital and reserves	0	0	0
L308000 Minority interest profit (loss)	0	0	0
L30TH00 Total minority interests	**0**	**0**	**0**
L300000 Total Shareholders' Equity	**0**	**0**	**0**
L101010 Finance leases	0	0	0
L101020 Bank and other borrowings	0	0	0
L101030 Non current financial liabilities due to group companies	0	0	0
L101040 Non current financial liabilities due to associates and joint ventures	0	0	0
L101000 Long term debt	**0**	**0**	**0**
L102000 Employee benefit provisions	**0**	**0**	**0**
L103010 Agents leaving indemnities	0	0	0
L103020 Other provisions	0	0	0
L103000 Provisions	**0**	**0**	**0**
L104000 Deferred tax liabilities	**0**	**0**	**0**
L105010 Other non current liabilities due to group companies	0	0	0
L105020 Other non current liabilities due to associates and joint ventures	0	0	0
L105030 Other non current liabilities due to third parties	0	0	0
L105000 Other non current liabilities	**0**	**0**	**0**
L100000 TOTAL NON CURRENT LIABILITIES	**0**	**0**	**0**
L201010 Trade payables due to group companies	0	0	0
L201020 Trade payables due to associates and joint ventures	0	0	0
L201030 Trade payable due to third parties	0	0	0
L201000 Trade payables	**0**	**0**	**0**
L202010 Bank overdraft	0	0	0
L202020 Advances from factoring companies	0	0	0
L202030 Current portion of long term debt	0	0	0
L202040 Other short term financial payables	0	0	0
L202050 Short term financial payables from group companies (only for Italian entities)	0	0	0
L202000 Short term borrowings and current portion of long-term debt	**0**	**0**	**0**
L203010 Income tax payables	0	0	0
L203020 Other tax payales	0	0	0
L203000 Tax payables	**0**	**0**	**0**
L204010 Advances from customers	0	0	0
L204020 Payables to employees	0	0	0
L204030 Payables to Social Security	0	0	0
L204040 Other payables due to third parties	0	0	0
L204050 Other current liabilities due to group companies	0	0	0
L204060 Other current liabilities due to associates and joint ventures	0	0	0
L204000 Other current liabilities	**0**	**0**	**0**
L200000 Total current liabilities	**0**	**0**	**0**
L401000 Liabilities held for sale	0	0	0
L400000 Liabilities held for sale	**0**	**0**	**0**
LIAB000 TOTAL LIABILITIES	**0**	**0**	**0**
L000000 TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**0**	**0**	**0**

Profit & Loss

Scenario: ACT **Year:** 2011 **Period:** DEC **Entity:** XXXXXX **Currency:** XXX

	2011 December	2010 December	DELTA
I101100 Revenues from sales and services from third parties	0	0	0
I101200 Revenues from sales and services from group companies	0	0	0
I101300 Revenues from sales and services from associates and JV	0	0	0
I101400 Change in work in progress	0	0	0
I101000 Revenues from sales and services	**0**	**0**	**0**
I102100 Other revenues from third parties	0	0	0
I102200 Other revenues from group companies	0	0	0
I102300 Other revenues from associates and JV	0	0	0
I102000 Other revenues	**0**	**0**	**0**
I100000 REVENUES	**0**	**0**	**0**
I201100 Usage of raw material	0	0	0
I201200 Usage of semi-finished product	0	0	0
I201300 Usage of finished goods	0	0	0
I201400 Usage of work in progress	0	0	0
I201500 Discounts from suppliers third parties	0	0	0
I201000 Cost of raw material and consumables	**0**	**0**	**0**
I2021A0 Manufacturing costs third parties	0	0	0
I2021B0 Commissions and Royalties	0	0	0
I2021C0 Consultancies	0	0	0
I2021D0 Communication and marketing	0	0	0
I2021E0 Freight and logistics	0	0	0
I2021F0 Research and development	0	0	0
I2021G0 Directors and auditors compensation	0	0	0
I2021H0 Maintenance and repairs	0	0	0
I2021IO Leasing	0	0	0
I2021J0 Rentals	0	0	0
I2021K0 Other service costs third parties	0	0	0
I202100 Cost for service third parties	**0**	**0**	**0**
I2022A0 Manufacturing costs from group companies	0	0	0
I2022B0 Commissions and Royalties from group companies	0	0	0
I2022C0 Consultancies from group companies	0	0	0
I2022D0 Communication and marketing from group companies	0	0	0
I2022H0 Maintenance and repairs from group companies	0	0	0
I2022J0 Rentals from group companies	0	0	0
I2022K0 Other service costs from group companies (only for Italian entities)	0	0	0
I202210 Management fee	0	0	0
I202220 Other cost for service group companies	0	0	0
I202200 Cost for service group companies	**0**	**0**	**0**
I2023B0 Commissions and Royalties from associates and JV	0	0	0
I2023C0 Consultancies from associates and JV	0	0	0
I2023D0 Communication and marketing from associates and JV	0	0	0
I202310 Management fee from associates and JV	0	0	0
I202320 Other cost for service from associates and JV	0	0	0
I202300 Cost for service from associates and JV	**0**	**0**	**0**
I202000 Cost for service	**0**	**0**	**0**
I203100 Salaries and wages	0	0	0
I203200 Social security charges	0	0	0
I203300 Personnel fund accruals	0	0	0
I203400 Other personnel costs	0	0	0
I203000 Payroll and employee benefit costs	**0**	**0**	**0**
I204100 Other operating costs from third parties	0	0	0
I204200 Other operating costs from group companies	0	0	0
I204300 Other operating costs from associates and JV	0	0	0
I204000 Other operating costs	**0**	**0**	**0**
EBITDA	**0**	**0**	**0**
I207110 Restructring costs	0	0	0
I207100 Restructring costs	**0**	**0**	**0**
I205100 Amortisation of intangible assets	0	0	0
I205200 Depreciation of tangible assets	0	0	0
I205000 Depreciation and amortisation	**0**	**0**	**0**
I206100 Impairment of assets	0	0	0
I206200 Revaluation of assets	0	0	0
I206300 Other accruals	0	0	0
I206000 Adjustments to asset value and other accruals	**0**	**0**	**0**
I200000 TOTAL OPERATING COSTS	**0**	**0**	**0**
EBIT OPERATING INCOME	**0**	**0**	**0**
I301100 Interest paid	0	0	0
I301200 Loss of equity-accounted companies	0	0	0
I301300 Commissions on borrowings	0	0	0
I301400 Foreign exchange losses	0	0	0
I301500 Other finance expenses	0	0	0
I301600 Other finance expenses from group companies	0	0	0
I301700 Other finance expenses from associates and JV	0	0	0
I301000 Finance expenses	**0**	**0**	**0**
I401100 Interests earned	0	0	0
I401200 Foreign exchange gains	0	0	0
I401300 Dividends	0	0	0
I401400 Profit of equity-accounted companies	0	0	0
I401500 Other finance income	0	0	0
I401600 Finance income from group companies	0	0	0
I401700 Finance income from associates and JV	0	0	0
I401000 Finance income	**0**	**0**	**0**
EBT PROFIT/(LOSS) BEFORE INCOME TAX	**0**	**0**	**0**
I501000 Current income tax	0	0	0
I502000 Deferred income tax	0	0	0
I500000 Income tax	**0**	**0**	**0**
TOTRESULT PROFIT (LOSS) FROM CONTINUING OPERATIONS	**0**	**0**	**0**
I600000 Profit (loss) from discontinued operations	**0**	**0**	**0**
TOTRES PROFIT (LOSS) FOR THE PERIOD	**0**	**0**	**0**

REPORTING PACKAGE – Balance Sheet and Profit and Loss Synthetic

Reporting Package

Scenario: ACT **Year:** 2011 **Period:** DEC **Entity:** XXX Currency: **XXX**

Balance Sheet

	2011 December	2010 December	DELTA
A101000 Goodwill	0	0	0
A102000 Trade marks with an indefinite life	0	0	0
A103000 Other intangible assets	0	0	0
A104000 Tangible Assets	0	0	0
A105000 Trading investments	0	0	0
A106000 Investments	0	0	0
A107000 Other non current assets	0	0	0
A108000 Deferred tax assets	0	0	0
A100000 TOTAL NON CURRENT ASSETS	**0**	**0**	**0**
A201000 Inventories	0	0	0
A202000 Trade receivable	0	0	0
A203000 Other current assets	0	0	0
A204000 Cash and cash equivalents	0	0	0
A200000 TOTAL CURRENT ASSETS	**0**	**0**	**0**
A400000 Assets held for sale	**0**	**0**	**0**
A000000 TOTAL ASSETS	**0**	**0**	**0**
L30GR00 Total Group shareholders' equity	**0**	0	0
L30TH00 Total minority interests	**0**	0	0
L300000 Total Shareholders' Equity	**0**	**0**	**0**
L101000 Long term debt	0	0	0
L102000 Employee benefit provisions	0	0	0
L103000 Provisions	0	0	0
L104000 Deferred tax liabilities	0	0	0
L105000 Other non current liabilities	0	0	0
L100000 TOTAL NON CURRENT LIABILITIES	**0**	**0**	**0**
L201000 Trade payables	0	0	0
L202000 Short term borrowings and current portion of long-term debt	0	0	0
L203000 Tax payables	0	0	0
L204000 Other current liabilities	0	0	0
L200000 Total current liabilities	**0**	**0**	**0**
L400000 Liabilities held for sale	**0**	**0**	**0**
LIAB000 TOTAL LIABILITIES	**0**	**0**	**0**
L000000 TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**0**	**0**	**0**

Profit & Loss

	2011 December	2010 December	DELTA
I101000 Revenues from sales and services	0	0	0
I102000 Other revenues	0	0	0
I100000 REVENUES	**0**	**0**	**0**
I201000 Cost of raw material and consumables	0	0	0
I202000 Cost for service	0	0	0
I203000 Payroll and employee benefit costs	0	0	0
I204000 Other operating costs	0	0	0
EBITDA	**0**	**0**	0
I207100 Restructring costs	0	0	0
I205000 Depreciation and amortisation	0	0	0
I206000 Adjustments to asset value and other accruals	0	0	0
I200000 TOTAL OPERATING COSTS	**0**	**0**	**0**
EBIT OPERATING INCOME	**0**	**0**	**0**
I301000 Finance expenses	**0**	**0**	**0**
I401000 Finance income	**0**	**0**	**0**
EBT PROFIT/(LOSS) BEFORE INCOME TAX	**0**	**0**	**0**
I500000 Income tax	**0**	**0**	**0**
TOTRESULT PROFIT (LOSS) FROM CONTINUING OPERATIONS	**0**	**0**	**0**
I600000 Profit (loss) from discontinued operations	**0**	**0**	**0**
TOTRES PROFIT (LOSS) FOR THE PERIOD	**0**	**0**	**0**